103

FOREIGN ASSISTANCE LEGISLATION FOR FISCAL YEAR 1994 (Part 3)

HEARING

AND

MARKUP OF FOREIGN ASSISTANCE AUTHORIZATION FOR FISCAL YEAR 1994

BEFORE THE

SUBCOMMITTEE ON
ECONOMIC POLICY, TRADE AND ENVIRONMENT

OF THE

COMMITTEE ON FOREIGN AFFAIRS
HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRD CONGRESS

FIRST SESSION

MAY 4 AND 12, 1993

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FOREIGN ASSISTANCE AUTHORIZATION FOR FISCAL YEAR 1994

TUESDAY, MAY 4, 1993

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON ECONOMIC POLICY, TRADE AND ENVIRONMENT,
COMMITTEE ON FOREIGN AFFAIRS,
Washington, DC.

The subcommittee met, pursuant to call, at 1:30 p.m. in room 2200, Rayburn House Office Building, Hon. Sam Gejdenson (chairman of the subcommittee) presiding.

Mr. GEJDENSON. The subcommittee meets today to hear from the administration and private sector regarding those aspects of the 1994 foreign aid reauthorization within our jurisdiction.

We will focus on a number of important issues in preparation for the subcommittee's markup on May 12, and to enable us to report to the full committee by May 14, 1993.

At today's hearing we will address the following components of foreign aid: Trade and aid, including the Trade and Development Agency, the Overseas Private Investment Corporation, the Office of Housing and Urban Programs, the Microenterprise Program, and the demise of the Private Sector Investment Program; funding for the environmental protection and environmentally sustainable development in developing countries; and the funding for nonproliferation and arms control, specifically the new money identified for export control purposes.

Given the vast area to be covered, we hope to move efficiently through these issues. I ask the witnesses to be crisp and to the point. We appreciate the cooperation of the administration and the private sector in providing us with the necessary witnesses on such short notice, and we would like in advance to give thanks to Ms. McKinney for agreeing to Chair the second hour of the hearing. I have to leave to join the Majority Leader at a meeting.

With that, I would yield to my colleague, Mr. Roth, for any opening statement he might have.

[The prepared statement of Mr. Gejdenson appears in the appendix.]

Mr. ROTH. Thank you, Mr. Chairman. I have a number of questions I would like to follow and I know time is of the essence here this afternoon.

But I want to say this, I am concerned for example about the "million in nonproliferation," you know, where is that money going to be coming from and are we going to ask other people to help us. I am also concerned about this microenterprise and the housing

guarantees. So I think there are a lot of areas in here that you and I want to look at very closely, Mr. Chairman.

Mr. GEJDENSON. Thank you. Ms. McKinney, do you have an opening statement?

Ms. MCKINNEY. No, Mr. Chairman.

Mr. GEJDENSON. If not, we have the privilege of being joined by our colleague, Mr. Porter. Mr. Porter.

STATEMENT OF HON. JOHN E. PORTER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Mr. PORTER. Mr. Chairman, Mr. Roth, Ms. McKinney, thank you for the opportunity to testify this afternoon. When I first came to Congress 13 years ago, there was a very interesting lady who spoke with a British or Eastern accent, smoked a pipe, and was the character that Lacey Davenport of Doonsbury was modeled on. Her name was Millicent Fenwick of New Jersey and she was a lady with a lot of ideas.

One very good idea, Mr. Chairman, that Millicent Fenwick had in 1975 was the formation of the Helsinki Commission. As the world was focused on the struggle between communism and freedom, and we had just signed the Helsinki Accords, including the basket on human rights, Ms. Fenwick proposed that we institutionalize our commitment to the Helsinki process. She believed that we needed to keep the agreements we made at Helsinki before us and stay focused on the content of those accords. Finally, she argued that we ought to mobilize our concerns for human freedom and the resources that we could bring to bear on the cause of human rights in Eastern Europe and the Soviet Union.

She proposed at that time, Mr. Chairman, the Helsinki Commission, a commission made up of executive and legislative branch members. Not a body of jurisdiction within the Congress or the executive branch, not a body that would step on anyone's toes, but a body that would bring us together in the government and keep us focused on human freedom. Mr. Chairman, I have been privileged to be a member of the Helsinki Commission for the last 9 years, and it is a body that has done great work in advancing the cause of human freedom in Eastern Europe and the Soviet Union.

The world has changed, Mr. Chairman. The threat of communism has receded. The world's focus now is upon a better life for every human being on this planet through freedom. The population of the planet is growing immensely, and it is growing mostly in the least developed countries.

There is demand in these countries for economic advancement, and it will mean that some sort of development in those countries is inevitable. The question is will development come at the expense of the environment—resulting in the destruction of tropical forests, the pollution of our oceans, the loss of species and biodiversity, and a disastrous global climate change? Or can development occur correctly and properly?

This, to me, is the challenge of the next century: to better the life of each human being through freedom and at the same time protect and preserve our global environment, biological diversity and the ecosystems and the life of this planet. In other words, Mr.

Chairman, the challenge of the 21st century is sustainable development.

This was the focus of the UNCED Conference held in Rio de Janeiro last June. It was, by many measures, a historic event. One hundred and seventy-eight nations participated in the conference, and 117 heads of state came to Rio—the largest gathering of heads of state in history. An international consensus on the environment and sustainable development was reached at UNCED. Significant agreements critical to the health of the planet and the future of humankind were entered into. Two of them were binding—The Convention on Climate Change and the Convention on Biological Diversity—and there were several nonbinding agreements, the Statement on Forest Principles, Agenda 21, and the Rio Declaration.

These documents provide a framework for integrating the goals of economic development on the one hand and environmental protection on the other. We need to ensure that these agreements and the challenge of sustainable development are carried forward.

I was a delegate to the UNCED Conference. I made the promise to myself that the commitments that were made there would not be forgotten. Almost a year has past since the summit. What have we done to promote progress toward the Summit's goals? Very frankly, Mr. Chairman, not enough.

I propose that we do the same thing to sustainable development that Millicent Fenwick proposed for human rights in 1975. I propose that we establish a Rio Commission, a body to review U.S. and international progress toward the Summit's policy goals. It would be modeled on the Helsinki Commission, four members from each House and Senate, and three appropriate members from the executive branch. The Rio Commission would be an advisory body, not having authority to implement the agreements or to make legislative proposals. It would not exist for that purpose. Instead, the Commission would monitor how well the U.S. and other UNCED conferees were following the policy guidelines in the areas covered by the Rio Declaration, Agenda 21 and the other Earth Summit agreements.

For example, the commission would track action to promote sustainable development and to address threats to the environment such as global climate change, ocean pollution, deforestation, biodiversity loss and persistent poverty.

Mr. Chairman, the Rio Commission would provide the public with a continuous and official forum to voice its concerns on progress toward sustainable development in the United States and around the world. Particularly, and I want to emphasize this, the Commission would give an opportunity for nongovernmental organizations, who played such a critical role at Rio, to monitor how we are doing on sustainable development and to let their voices be heard in the official process to follow-up on UNCED. I think that is very, very important to moving the agenda of sustainable development forward.

I have been discussing my proposal with the White House Office on Environmental Policy. Obviously, the President and Vice President are very concerned with these issues. We hope to coordinate to ensure a substantive follow-up to UNCED both at home and abroad. I am working now on a revision to the legislation, H.R.

299, that I introduced earlier in the year that would incorporate the administration's suggestions. I hope to offer a revised bill on the 1-year anniversary of UNCED in early June. I would commend this legislation to your consideration, the members of this committee and you, Mr. Chairman.

I hope you will look on it favorably. I think it does for sustainable development what the Helsinki Commission has done for human rights, and I can think of nothing more important for the century ahead than people advancing on this planet through freedom and that, at the same time, we preserve the planet and pass it along to future generations enhanced rather than diminished.

Thank you for listening to me, Mr. Chairman.

[The prepared statement of Mr. Porter appears in the appendix.]

Mr. GEJDENSON. Thank you and we appreciate your efforts in this area as well as in the human rights area, and these concerns are certainly something that this committee is going to want to take a very hard look at to see what the best method for moving forward is.

Mr. Roth, questions?

Mr. ROTH. I want to compliment our colleague for his statement. I think the issue of environment is something that we have to focus on and continuously focus on, and I very much appreciate his dedicated efforts in this area, not only now but in the years past. So thank you very much for your statement.

Mr. PORTER. Thank you, Mr. Roth.

Mr. GEJDENSON. Mr. Ballenger.

Mr. BALLENGER. Thank you, Mr. Chairman.

If I may, John, I was just curious, not having the background of the Rio Conference, but in all of Central America, as you are traveling down there, if it happens to be the season before planting, I know in Brazil the slash and burn is destroying the jungle, but in Salvador, Guatemala, Nicaragua, Honduras, they all burn their fields every year. Is that a negative or a positive as far as—or is it small enough it doesn't make any difference?

Mr. PORTER. It all makes a difference. I think it probably is a negative. I am not certain whether that is for their purposes a way of fertilizing for the next crop rotation.

Mr. BALLENGER. I think so.

Mr. PORTER. But there ought to be better ways to do it than that, and one of the problems, of course, is that we are not just burning fields, we are burning tropical forests. You can go fly over Brazil at any time and see immense portions of the forest in flames.

Mr. BALLENGER. I have seen that. But this is all, generally speaking, tilled land. There are no trees and they just burn. I guess the ash, the sodas and whatever it is in the ashes, is good fertilizer.

Mr. PORTER. I presume that is why they do it.

Mr. BALLENGER. It doesn't cost anything. Whereas if you had to fertilize, it is—just the thought that it is so poor to start with, that additional things to raise the cost of their food.

Mr. PORTER. What we need to do is, because we are now in a position through information technologies to share knowledge with people all around the globe, work with other societies to identify and develop better ways to do things. This will allow less developed countries to develop economically as we have but in a much better

way in the sense of preserving their resources and the biodiversity of the planet. That is what the UNCED conference is really all about and that is what I think the next century is really all about.

This world is going to develop. The question is how is it going to develop. Are we going to do it right or are we going to do it wrong? And the United States is uniquely, because of our influence in the world, in the position to help people do it right.

Mr. BALLENGER. Thank you.

Mr. MANZULLO. Mr. Chairman, I commend my colleague from Illinois for his tremendous interest in this delicate subject.

John, could you give us just a little bit more as to what this Rio Commission would do?

Mr. PORTER. The commission, Don, would be like the Helsinki Commission, which was formed in 1975 at the suggestion of Millicent Fenwick and others to monitor international and U.S. compliance with human rights and other provisions of the Helsinki Accords. The Helsinki Commission institutionalized our concern for human rights in Eastern Europe and the Soviet Union, in particular, and had the same sort of makeup and membership that I am proposing for the Rio Commission: Members of the House, Members of the Senate and appropriate members of the executive branch.

The idea is to put continuously before the government and the people of this country the concern in those areas and to marshal knowledge and bring the issues to the attention of policymakers. It isn't, in other words, a Commission that comes and goes. Rather, the Commission makes your concern, your focus constant. It has a small staff that brings people together.

We have a hearing today on the Helsinki Commission, for example, on human rights. It has broadened its outlook since it was formed in 1975. It is looking now, of course, at Bosnia. But the idea of the Rio Commission is that you have a forum, a place where you can bring pressure on the process to do those things both at home and overseas that carry out the concept of sustainable development as they were developed through the U.N. Conference and will be developed in the future.

Mr. MANZULLO. There is no one organization now that could do this. Is that what you are saying?

Mr. PORTER. No, and I want to mention one thing since you raised it. When the Helsinki Commission was formed, the executive branch said, oh, this is unconstitutional. We cannot have members of two different branches of government serving on the same commission.

That is, of course, wrong. They can easily and do often serve on the same commission, provided it does not have jurisdiction—that is, that the Commission does not write legislation or attempt to implement it. The idea of the Helsinki Commission is to bring together the knowledge on human rights and freedom and to use that knowledge to advance the cause of human freedom. That would be the same idea with the Rio Commission.

As I said, I think the triumph of freedom over communism is the story of the last half of the 20th century. The story of the next 50 years or maybe 100 will be how do we live together in freedom and develop the world so that everyone has a better life and preserve

the planet in the process. And that is going to be the agenda for the next 100 years or maybe much longer.

Mr. GEJDENSON. Thank you very much, and we will keep in contact with you as we continue working on this issue.

Mr. PORTER. Thank you, Mr. Chairman, and members of the committee.

Mr. GEJDENSON. Our next witness is Robert Gallucci, Assistant Secretary for the Bureau of Political and Military Affairs, Department of State.

Your entire statement will be placed in the record. Please proceed as you are most comfortable.

STATEMENT OF ROBERT GALLUCCI, ASSISTANT SECRETARY, BUREAU OF POLITICO-MILITARY AFFAIRS, DEPARTMENT OF STATE

Mr. GALLUCCI. Thank you, Mr. Chairman.

Mr. Chairman, members of the subcommittee, I am pleased to have the opportunity to discuss the export control components of the administration's request for a $50 million nonproliferation and disarmament fund.

President Clinton and Secretary Christopher have called prevention and reversal of the proliferation of weapons of mass destruction one of the foremost security challenges confronting the United States in the post-cold war world. They are committed to U.S. leadership in this effort.

We aim to stem proliferation of such weapons by nonproliferation treaties and agreements, by export control regimes, by our own national export control system, and by continuing application of Nunn-Lugar funding in the four nuclear states of the former Soviet Union, Russia, Kazakhstan, Ukraine and Belarus.

The Nunn-Lugar funding addressed a very significant new challenge. We have begun to help Russia design storage facilities for the fissile materials and components from the nuclear weapons it is dismantling. We are also planning to help Russia, Ukraine, and Kazakhstan in the dismantling of strategic missiles and bombers, missile-carrying submarines and ICBM launchers.

But there are other proliferation challenges in the nonnuclear states of the former Soviet Union and in Eastern Europe, in South America, in Africa, in the Middle East, and the Asia. Some of these challenges involve vigorous enforcement of international nonproliferation export standards aimed at countries hostile to our objectives.

We also need to ensure that international inspections and monitoring bodies, such as the International Atomic Energy Agency and the U.N. Special Commission on Iraq, are equipped for their jobs and receive our political and financial support.

But just as significantly, there are a number of countries willing to accept and implement our nonproliferation objectives that do not have the expertise or resources to do so.

Last year Congress, in the Freedom Support Act, authorized the President to make available up to $100 million in fiscal year 1993 security assistance funds to promote nonproliferation and disarmament activities. Unfortunately, fiscal year 1993 security assist-

ance funds could not be reprogrammed for these purposes because cutbacks and earmarks had reduced overall funding.

Consistent with the Freedom Support Act authorization, we are proposing establishment of a $50 million fund for nonproliferation and disarmament in fiscal year 1994. This fund, administered by the Department of State, will be part of an integrated government-wide approach to nonproliferation which will also include the Departments of Defense, Commerce, Energy and the Arms Control and Disarmament Agency.

The Department of State's nonproliferation and disarmament fund has four broad components: Education and training, destruction and conversion, enforcement and interdiction, safeguards and verification. Let me focus on the four specific export control related activities within these areas.

First, export control training. We would offer export control assistance like what we are now offering the four nuclear FSU states under Nunn-Lugar to other FSU states, Eastern Europe and non-European states. We would concentrate on weapons of mass destruction and conventional arms transfer controls. This would include providing computerized information systems and establishing training centers within target countries to create more effective export control systems.

Second, nonproliferation outreach would explain U.S. nonproliferation policies and their effect on industry to government and industry officials of other countries. We would show how our industry accepts and copes with proliferation-related restrictions in order to promote such acceptance by foreign industries.

The third area, prevention of nuclear smuggling, would provide financial and technical assistance to enforcement organizations in the former Soviet Union and Eastern European countries to reduce the risk of nuclear materials being smuggled out of the FSU and Eastern Europe. This would include setting up communications or other computer networks, as well as establishing cells within enforcement organizations to focus on this threat.

The fourth area, technical studies into export control regimes, would support technical studies on the effectiveness of multilateral export control regimes, including the Nuclear Suppliers Group, the Missile Technology Control Regime and the Australia Group aimed at chemical and biological weapons.

Of these, only the technical studies program addresses controls on U.S. exports. The remainder focus on helping other countries establish and maintain their own export control functions.

Finally, I want to emphasize that the fund is a new idea and the details of the programs it would support have not been completely defined. In fact, we want this fund to allow us to exploit unexpected opportunities. We cannot predict what those might be, but we will need flexibility if we are to meet the broad program objectives, including export control.

We would be pleased to work with you and your staff and other congressional committees over the next few months to define more precisely the activities under this fund. That is the extent of my prepared remarks, Mr. Chairman. I will be pleased to try to answer your questions.

[The prepared statement of Mr. Gallucci appears in the appendix.]

Mr. GEJDENSON. Thank you very much.

Let me just ask one general question at the beginning. Are you looking at reorganizing COCOM in its entirety.

Do we need to restructure the whole system? Maybe you cannot answer me at this point, but it appears that with missile, nuclear, chemical, and biological proliferation issues, the targets are different than they used to be. The risks and dangers are uncertain in respect to the former Soviet Union. We do not know yet how to deal with the newly independent states. But certainly much more of our focus is going to have to go towards those countries who contribute to missile, nuclear, biological and chemical proliferation. There is a question of whether or not we need to focus more of our efforts on the respective international control regimes or whether we ought to reorient COCOM itself with more specific targets in mind. In the long run, we will need to take a look at how we have behaved during these periods, as well.

Mr. GALLUCCI. Mr. Chairman, you are exactly right and you are anticipating part of the policy review that is ongoing and, indeed, even as we speak.

We have all recognized that the purpose of COCOM that was supposed to serve, and maybe in large part has been met, and we are looking to see how it ought to be reoriented. That means in the first instance that we want, in fact, for states of the former Soviet Union to succeed as market economies and we want to be able to help, we want to be able to sell. At the same time, however, two additional points should be made, that the states of the former Soviet Union particularly and other states to which COCOM was directed may not themselves have adequate export controls. So even if we were not concerned about their use of that which we might sell them, we may be concerned about their reexport.

Mr. GEJDENSON. Additionally, there are private enterprises within those states who may have relationships with some of those countries that we are still concerned about.

Mr. GALLUCCI. Mr. Chairman, I had one more point, to pick up on another one of your points. There are other countries, though, that we do of course have a concern about, and it may be that the COCOM system may be of use in dealing with a dual use problem with other countries that we very much wish to address.

Mr. GEJDENSON. Well, we will hold, I am sure, additional hearings on that issue.

Let me go to the heart of your request for a moment. If this was 7 or 8 years ago and you requested $50 million to prevent the U.S.S.R. from using its technology against the United States, you would not have been an asterisk at a hearing. If it was to buy more bases or supply more bases in Europe or more aircraft to make sure that we had adequate protection of Western Europe, the same scenario would have applied.

But when you ask for $50 million to go to the former Soviet Union, former Soviet Union, and spend it there, with the accountants and the Congress getting much sharper with their pencils, we are more apt to take note of it.

How much of this money would you anticipate using to hire American companies or individuals to help set up the system. In essence of the request, what percentage will come back to the United States in the final analysis?

Mr. GALLUCCI. Mr. Chairman, if I could begin by first noting that while some of this money and some of the programs under the fund could be expended for and in the former Soviet Union, the real thrust of our program is away from the former Soviet Union to other regions where we have concerns about proliferation. So I don't want to leave the impression that we are aiming this as well as other programs, other agencies only at the former Soviet Union.

Mr. Chairman, I don't have a breakdown and could not, I don't think, even for the record, provide and anticipate how much money we will, of this money we will expend on U.S. experts, U.S. consultants, and U.S. equipment.

What I can say is it is envisioned that all those are possible. Among the possible ways of expending this money is on U.S. contractors and consultants on equipment that would be provided to these countries to help in their export control.

The fund would also permit expenditure of this money in these countries if that were appropriate to achieve program objectives.

Mr. GEJDENSON. Well, I think it would be helpful for us if you could go back and review the working documents back at the department where you estimated costs in various categories in order to determine the ratio of return per dollar to the United States. I think that there are many of us who believe in this program and think it is important to international security and American Security. You don't have to go far from the World Trade Center to get a sense of the dangers that lurk out there as technology moves, whether from foreign or domestic terrorist activities.

But I think the more we can show the American people that it is not just money sent overseas without return and with only the hope that it works, the more effective we will be at seeing that these programs pass the Congress.

You are planning to spend $5 million for export controls; is that correct?

Mr. GALLUCCI. Export control training.

Mr. GEJDENSON. Training. And is that targeted for Eastern Europe and the former Soviet Union; is that your primary area?

Mr. GALLUCCI. But not exclusively. Non-European states as well.

Mr. GEJDENSON. Which non-European states are you considering?

Mr. GALLUCCI. It could be in South Asia, could be in Northeast Asia, could be in the Middle East and certainly could be in Latin America.

Mr. GEJDENSON. I know this will shock you, but in the past there has been some tension between the various departments at the Federal level that have responsibility over these issues. I think I remember once that the State Department refused to give passports to the Commerce Department to go do a training session of their own.

Can we expect there will be a more cooperative nature here and are you working with the Commerce Department, trying to make sure that the Commerce Department, which has a significant por-

tion of the jurisdiction on licensing, is working with you rather than at opposite ends?

Mr. GALLUCCI. As you said, Mr. Chairman, I am shocked to find that, but, yes, indeed, I expect we will be fully cooperative with the other agencies which are charged essentially with the same objective of preventing the proliferation of these weapons.

Mr. GEJDENSON. I have more questions and I will submit some of them to you in hopes that I will be able to come back from my next meeting in time to get your responses or at least hear from some of the other witnesses. I do believe that this is a critical part of the process in an effort to move forward. If we find the same kind of battles that went on during the Reagan and Bush administrations between Commerce, State and Defense, we are going to squander a lot of energy rather than dealing with the problems.

Mr. Roth.

Mr. ROTH. Thank you, Mr. Chairman.

Mr. Gallucci, you are asking for $50 million; is that correct?

Mr. GALLUCCI. That is correct, sir.

Mr. ROTH. Where is this money supposed to come from?

Mr. GALLUCCI. Sir, from security assistance.

Mr. ROTH. Sorry?

Mr. GALLUCCI. Security assistance budget.

Mr. ROTH. We have extra money in there?

Mr. GALLUCCI. I certainly wouldn't say extra money. What we have been doing is restructuring the security assistance account. As I indicated, the Congress last year expressed its intent by providing the reprogram authorization for up to $100 million. We could not accomplish that in making allocations of funds for this fiscal year.

We believe, given the objective of preventing the proliferation of these weapons, that $50 million for this fund is an appropriate expenditure.

Mr. ROTH. Are you going to be recommending to Congress some, when you talk about security assistance, to reshuffle those funds, some of the lower priority programs where this money is going to be coming from? Is that what I hear you saying?

Mr. GALLUCCI. What I am trying to say, sir, is that the foreign assistance budget has been restructured. We have been in the process of doing that. This element of the budget finds a place, given its priority in our foreign policy objectives. As is always the case, these objectives compete one with the other. This is funded at what we think is an appropriate level given the concern we have about the proliferation of these weapons.

Mr. ROTH. Last year, Congress appropriated some $800 million for the former U.S.S.R. As I understand it, about, only a fifth of that money has been spent. Why don't we reallocate some of that money?

Mr. GALLUCCI. I believe that over fiscal year 1992 and fiscal year 1993 there were $400 million each in the Nunn-Lugar monies, which, Mr. Roth, I am assuming you are referring to?

Mr. ROTH. Yes, I am.

Mr. GALLUCCI. These monies are in various stages of obligation, either proposed or actual obligations. In actual obligations, we have

just over $20 million, and in proposed obligations over $450 million.

I can tell you, having worked on one small portion of that program before I took my current position, that some of the difficulty clearly resides in negotiating the arrangements that permit the commitment of these funds, that is to say with the recipients, such as Russia and the others. It is extremely important to us. The objective of getting safe, secure dismantlement of these nuclear weapons and these systems and working out the arrangements is a difficult diplomatic task.

Mr. ROTH. I don't want to get sidelined here, but we have a General William Burns. You are acquainted with his work?

Mr. GALLUCCI. Certainly am.

Mr. ROTH. Now, he was telling us, or we have information that he was supposed to be setting up these systems, for example, in the various republics, and he needed computers in those republics to help him set up the systems and he could not get the export license to get those computers to those republics.

Mr. GALLUCCI. Mr. Roth, I am unfamiliar with the specific case, but I find that entirely plausible given the character of the export control laws, and that is one of the things we are working very hard right now to do something about.

Mr. ROTH. Well, I sure hope so, otherwise there doesn't seem to be any coordination here and I lose confidence in what we are trying to do.

Mr. GALLUCCI. Yes, sir, we are aware of that problem and we are working on it just as hard as we can.

Mr. ROTH. The chairman, I believe, asked a question about COCOM. What is COCOM going to be contributing or can we ask them to contribute? Have we asked COCOM to contribute to this effort, out in the countries in COCOM?

Mr. GALLUCCI. One of the purposes of this activity is to multilateralize export control, and we will be working with the other countries that we cooperate in COCOM to have them contribute with us to the creation of export control regimes in these other countries. So, yes indeed, we plan on cooperating with the other COCOM countries.

Mr. ROTH. I don't know if I understand that. I will elucidate a little more. Are we going to work with the present system, present COCOM we have, or are we going to expand our program to bring all these countries into COCOM? Is that what you are saying?

Mr. GALLUCCI. Let me distinguish between the countries we cooperate with in COCOM in export control and the target of COCOM controls.

Earlier I was describing what we see as a clear need to reorient the purpose of COCOM and decide even fundamentally whether we even need a COCOM in the future. There are some good arguments for keeping COCOM but for changing its orientation in light of the disappearance of the Soviet Union and communism in the force of international politics.

However, that structure and the coordination we have had over these many decades with other supplying countries can be used to work with them, and that is what I was referring to now, work with them together to improve the export control regimes and

multilateralize them so that we level the playing field when we ourselves impose export controls in the interest of preventing proliferation.

So that COCOM structure, I expect, we will be able to use in terms of coordination with our allies.

Mr. ROTH. So let me see if I understand this correctly. So you are saying we are going to look at or attempt to expand COCOM?

Mr. GALLUCCI. What I am reluctant to speak to in any definitive way is exactly what the future of COCOM will be since that is the subject of policy review right now.

I will say that as we look at COCOM, we see certain utilities to that alliance relationship we have had and we can use it to advance the objectives I have described here.

Mr. ROTH. My time is expended, but it would seem to me, if that is the case, so we know what we are doing, we should wait and see what that policy review is before Congress allocates the additional $50 million.

Mr. GALLUCCI. If I could offer, sir, I think that we will try to reach a conclusion with respect to COCOM that fits the nature of the world as we have it now and it is not a cold war relic. At the same time, though, the problem with the proliferation of these weapons of mass destruction is with us, it is in regions all around the world, even well beyond the COCOM target countries, and this fund is aimed at that problem much more broadly defined.

Mr. ROTH. OK, thank you very much.

Mr. GALLUCCI. Thank you.

Ms. MCKINNEY [presiding]. Mr. Wynn.

Mr. WYNN. Thank you, Madam Chairwoman.

Mr. Gallucci, would the recipients of this fund be signatures on our nonproliferation treaties? Would that be a precondition for receiving aid?

Mr. GALLUCCI. It would not necessarily be a precondition. Indeed, we might want to assist some countries that are outside of the nonproliferation treaty regime to control their own exports. I am guessing at the thrust of your question—the reasons why you might wish a recipient to meet a certain test.

On the other hand, if we had a problem country and they are willing to fix their export policies, that would serve our interests independent of whether we can at the same time attract them to adherence to the treaty regime.

Mr. WYNN. All right. I notice a lot of your discussion was addressed to weapons of mass destruction. How much of this fund will be utilized to restrict the transfer of conventional weapons?

Mr. GALLUCCI. Mr. Wynn, I don't have numbers broken out that way. It is very hard for me to look at the categories and come to an estimate. If you would like, for the record we could try to do that, but one of the points I was making at the end of my informal remarks was that the categories we have established are somewhat flexible and in our own mind we are going to have to, with this being a new fund, learn through experience.

Our focus really is on weapons of mass destruction rather than conventional weapons, but the language would permit control in that area as well. I am talking around this rather than answering

directly because I honestly don't have an answer in terms of percentage or absolute amount of dollars.

Mr. WYNN. Is it fair to say most of this aid package is directed toward the former Soviet Union?

Mr. GALLUCCI. No, that I can tell you. The purpose is not to exclude assistance to the former Soviet Union but most specifically to make money available in this fund for countries that are not in the former Soviet Union: countries in Eastern Europe and in other regions of the world.

There is Nunn-Lugar money that focuses exclusively on the former Soviet Union and what we wanted this fund to do was to complement the Defense Department's activities rather than be redundant to them.

Mr. WYNN. Take for example India, how would this fund apply in a situation such as that where you have a country that has not agreed to sign a nonproliferation agreement?

Mr. GALLUCCI. OK. Let's take a country that is not a party to the nonproliferation treaty, and we have a number that are of concern—Argentina, Brazil, Pakistan, India—any number of these countries. The four they mentioned are capable of making exports which would contribute to the proliferation of chemical, biological, nuclear weapons or ballistic missiles.

In consultations with these countries, if it were determined that they had an interest in joining the rest of the international community in controlling exports but lacked the capability, either technically, in terms of equipment, intellectually, in terms of the regulations, we could use this money to assist them to join the international community in controlling these exports.

Very recently the MTCR, the Missile Technology Control Regime, meeting in Canberra, endorsed the ultimate membership of Argentina based on its performance most recently in joining that regime. This is a regime that aims at controlling exports that might contribute to the proliferation of ballistic missiles.

Argentina is not a party to the nonproliferation treaty. In joining this regime, it may need help in implementing the undertakings it makes under its adherence to the MTCR. While it is not a member of the nonproliferation treaty, we would want to help it, notwithstanding its NPT posture.

Mr. WYNN. Have you had any overtures from any of the four countries that you just mentioned indicating that they would like or soliciting this kind of help?

Mr. GALLUCCI. We have. I can tell you for a fact that we have had export control consultations with both India and Argentina and we may well have with the other two and others which I could not confirm for you right at this moment, but I am aware of at least consultations on export control with those countries.

Whether specifically those consultations resulted in a conclusion that they needed specific assistance, I could not determine and tell you at this moment. I did not come prepared today to describe which countries would be a recipient of these funds, just the character of the assistance we hope to provide and a firm belief that there is a world of need for this kind of money. This is best perceived as seed money, front end load money in which we will need

to encourage other countries ultimately to join us to provide the kind of assistance to make these regimes successful.

Mr. WYNN. Thank you very much. Thank you, Madam Chairwoman.

Mr. GALLUCCI. Thank you.

Ms. MCKINNEY. Thank you, Mr. Ballenger.

Mr. BALLENGER. Thank you, Madam Chairwoman.

Mr. Gallucci, in the discussion you just had with Mr. Roth, it was mentioned that $800 million of Nunn-Lugar money was put into the pot, I guess, to be involved in cleaning up the four Russian states that have nuclear warheads and you said that there was an actual spending of about $20 million with a commitment of about $400 million?

Mr. GALLUCCI. No, I have obligations. Actual obligations as of December 31, 1992, were $20,383,000. Obligations proposed as of April 6, 1993, $452,790,000.

Mr. BALLENGER. Does that include the $20 million?

Mr. GALLUCCI. That is a good question and I wish I could tell you the answer definitively. Sir, I don't know the answer. I would not want to guess at it.

Mr. BALLENGER. Anyhow, let me just say that roughly a little over half of it anyhow is committed and there is going to be a request for $400 million more.

As a businessman who projects the usage of the money and realizing that I think the Defense Department has got a hold of the purse strings as far as this operation is concerned, but roughly speaking with what, $370 million left for commitments for this coming year, doesn't it seem a little strange that you all would need $50 million?

I mean, there is such a great working relationship, since our chairman is gone, between your Defense Department and the State Department now that we have a democratic majority, I mean a democratic President in Congress and so forth, wouldn't it seem much more sensible to use some of that money that the defense has got control of?

Mr. GALLUCCI. I would make two points, Mr. Ballenger, in that connection. One is that the $50 million that we are seeking for the nonproliferation disarmament fund for the Department of State, is aimed principally at states other than the Nunn-Lugar targeted states. The Nunn-Lugar money is limited in terms of where it can be spent.

Mr. BALLENGER. How many missiles are there outside the Nunn-Lugar states?

Mr. GALLUCCI. A great many, sir, because we were not talking intercontinental ballistic missiles only, but we are interested in Scud and Scud variants.

Mr. BALLENGER. Are we not talking nuclear?

Mr. GALLUCCI. Nuclear are not excluded but we are not limiting this to nuclear. We are interested here in this fund in addressing the proliferation of conventional weaponry, weapons of mass destruction, and I would say particularly ballistic missiles that can deliver those weapons; but not necessarily only weapons that carry nuclear warheads.

But an additional point, if I could. The Nunn-Lugar money has been committed to some degree, as I have described. The need for this money is great and clear and it is of vital interest to the national security of the United States. I am convinced, and the administration is convinced, that safe and secure dismantlement of the central systems of the former Soviet Union is the highest priority that we have. And this money is essential to that. We are making an effort to broaden the participation of our allies in providing funds so that that need can be addressed.

It is an extremely, in my view, efficient use of money. I recognize these are large sums of money, but this is an efficient way of using it for the destruction of these weapons that have threatened us for so many decades.

Mr. BALLENGER. I would recognize that, and surely somewhere down the road we figured out how to disarm them and destroy them. Do we have a projected time schedule to use up the—I mean, we can come up with an additional $400 million and an increased expenditure as a request, how many have we destroyed?

Mr. GALLUCCI. Mr. Ballenger, let me make a point about the timeframe here. This dismantlement is occurring in the context of negotiated arms control treaties—not exclusively but primarily the START I Treaty and eventually we certainly hope the START II Treaty. So the timeframe is roughly out to the year 2003. With some of the countries under the Lisbon Protocol, the timeframe is only 7 years away. And less if we can make it less.

Our interest, of course, is to expedite this as quickly as possible, and every one of those missiles dismantled and taken apart and destroyed, and warheads, adds to our safety and security. So that is the orientation.

In terms of actual numbers, dismantlement and destruction of both tactical and strategic nuclear weaponry has already begun. I want to emphasize also that this is not only aimed at the nuclear weaponry, which is our proper focus, but there is an enormous inventory of chemical weapons in the former Soviet Union that must be dealt with as well as the delivery systems.

Mr. BALLENGER. Well, the one thing that gets me is we put $800 million in and in less than 6 months we come up with another $400 and then you projected out 7 years in one thing and to the year 2003 on another. What are you figuring, roughly, $20 million, $30 billion to do this?

Mr. GALLUCCI. I don't have a figure of how much it would take in terms of U.S. assistance. I would say that our interest in this is clearly in committing funds and committing the governments of the former Soviet Union to the destruction programs. So I don't know that it is fair to straight-line this as a yearly expenditure.

Moreover, as I indicated, we certainly hope to bring our allies along, who share with us a substantial interest in having these weapons destroyed.

Mr. BALLENGER. One more question. Would it be possible legally, then, to have a bill from Congress to commit $50 million of Nunn-Lugar funds to accomplish your purpose?

Mr. GALLUCCI. Sir, legally I don't know what the answer is. But as someone who also has responsibilities, shared responsibilities to be sure, for safe, secure dismantlement, I would not be enthusiastic

about detracting from the central focus of Nunn-Lugar funding. I would propose the fund we are testifying on before you today be considered on its merits separate from the Nunn-Lugar funding.

Mr. BALLENGER. I was thinking instead of $400 new Nunn-Lugar funds, that we were not really sure how much you need, that 350 might be just as good a number and that the money for the State Department could be separate from that and still get the same amount of money.

Thank you, Madam Chairwoman.

Ms. MCKINNEY. Thank you. Ms. Cantwell.

Ms. CANTWELL. No questions for Mr. Gallucci.

Ms. MCKINNEY. I have a question. I don't think I heard you say the number of missiles that have been destroyed under Nunn-Lugar.

Mr. GALLUCCI. Ms. McKinney, you didn't hear me say the number of missiles because I frankly don't know the number of warheads of missiles. What I did say was that both tactical nuclear and strategic nuclear weapons, that the destruction of both has begun.

Ms. MCKINNEY. Mr. Rohrabacher.

Mr. ROHRABACHER. Let me see if I have the pronunciation of that.

Mr. GALLUCCI. Gallucci.

Mr. ROHRABACHER. Well, sorry I am here a little late. Unfortunately, when you are a Member of Congress, and as our freshman chairman will find out, they schedule these things at the same time.

I just would like to ask you a little bit about the, perhaps the interdiction effort of materials that can be threatening to mankind, nuclear and chemical materials.

Do you and does this government advocate the use of force against those people who are engaged with transferring nuclear capabilities and chemical capabilities?

Mr. GALLUCCI. We have in one of the programs under this fund an allocation for enforcement and interdiction programs and that includes nuclear smuggling. And under that category for nuclear smuggling, it would be our intention to assist states of the former Soviet Union and in Eastern Europe in being able to counter efforts to smuggle nuclear material out of one of these countries to another country and move it outside the material control system of these countries.

It would certainly, in my view, be utterly appropriate for law enforcement entities in these states to use force to stop such smuggling. We are, as you might expect, quite concerned about the smuggling, particularly of fissile material, but of any nuclear material, putting aside chemical and biological weapons.

So this is a matter of some concern to us.

Mr. ROHRABACHER. When you say the police forces in those countries. Well, what about in the areas that are where the police forces really don't have control of the situation? Is the United States, are we moving into an era when we are going to have to commit the seals or some special unit in areas to prevent people like Qadhafi and other nut cases from getting their hands on nuclear materials?

Mr. GALLUCCI. I think our hope here, if we are talking about that which might flow out of the former Soviet Union, is to work with these governments of these new states and with the governments in Eastern Europe, to develop, first, the accountancy system so they will know if something is missing; second, develop a special capability to track and interdict and assist them. Sometimes it is just an information handling and computerization so that they can interdict.

Obviously, our desire is not to get to a situation which has material far outside the borders of these countries and in which you are, in fact, dealing with the acquisition of fissile material by a country such as Libya or a country such as Iran. It is precisely that outcome that we are hoping to avoid. In that connection, that is one of the reasons I have said this is a relatively small amount of money aimed at a relatively large target in terms of significance and in importance to international security as well as our national security.

Mr. ROHRABACHER. So your aim is to prevent the United States from being put in a position where we will actually have to used armed forces of our own in order to prevent this material from reaching the hands of people we believe would be a threat to civilization?

Mr. GALLUCCI. Mr. Rohrabacher, one of the ways of characterizing what this whole effort is about, this nonproliferation effort, is to deal with this problem while it is a diplomatic problem, before the acquisition of these weapons and materials by states forces us to deal with it as a military problem, that is correct.

Mr. ROHRABACHER. Let me note in the future, as much as we want to accomplish that, that I think that Presidents and leaders of our country are going to face decisions in the future that other Presidents have not had to face, and the courage and good judgment in situations like this that we will require of our leaders will go way beyond when it was one state versus another, when we have to basically make a decision that certain governments will not get their hands on material that will permit them to make an atomic bomb and we would be willing to use American forces in an effort to prevent that. Those are not decisions we have had to make before.

Mr. GALLUCCI. I think our objective here, as I have said, is to decrease the likelihood and diminish the number of cases in which such decisions would have to be made.

Mr. ROHRABACHER. Thank you very much.

Mr. GALLUCCI. Thank you.

Ms. MCKINNEY. Mr. Roth.

Mr. ROTH. Thank you, Madam Chair.

Mr. Gallucci, I just have one short question. These hearings search a number of purposes, one for you to enlighten us and for us to some degree sensitize you to the problems we are faced with because after all we are all working together; right?

Mr. GALLUCCI. Yes, sir.

Mr. ROTH. You read the local newspaper, *Washington Post* especially, as it deals with foreign aid and so on. Do you have a chance to follow that?

Mr. GALLUCCI. I try to, sir.

Mr. ROTH. Try to. Outside of the 900 foreign aid lobbyists here in Washington and outside of the bureaucrats here within the Beltway, there is not a great deal of support for foreign aid with the taxpayers. In fact, I don't know what word to use, maybe it is abhor, dislike, disdain, but that is what people tell me about foreign aid.

I noticed that in Friday's paper even the local liberal newspaper, the *Washington Post*, had an editorial, "Do Something About Foreign Aid". They talked about AID, 14 separate AID management studies, 7 different AID Inspector Generals, I don't know how many task forces, House Foreign Affairs Committee study, Carlucci Commission, Senate Foreign Relations, goes down all these various studies, 8 years and all the recommendations, yet nothing is done.

How would you respond to an editorial like that?

Mr. GALLUCCI. I think this administration is in fact trying to do something by restructuring the foreign assistance budget into categories which reflect concerns that not only the administration, but also the Congress and the American people will share. And I believe that is our intent and I think that is the direction we are headed.

Mr. ROTH. Well, my advice, then, would be to wait and see what the recommendations are before we allocate any more money. Because I don't have a great deal of confidence that the administration is going to do that. Not because I am from the other party, but I have been around here long enough to know that things just get reshuffled and nobody cares. And the people in this country are getting so mad at Congress that they are going to start marching on Washington and I know a lot of people chuckle, but when I go back home, I have never felt anger like this among the American people that I feel today, and it is getting worse.

And a blind man can see what is happening here. We cannot continue with the programs the way we are. We cannot shuffle around. You know, people come in here, OK, give me $50 million more. There is no budget.

I am not trying to be argumentative or hold you responsible. I am saying how I feel. When Gejdenson says you don't pull from the air and here is $50 million, I am not so sure that is not the way it is done.

I just want to leave you with my feelings. I am saying that I know you are a dedicated person, you are trying your best, but the politics of the past is not going to work. We are living in a new world and we have to address that. The American people just won't stand for it.

Mr. GALLUCCI. Mr. Roth, if I could say one thing in response, I think we are aware, as everyone else, every American is, of the pressures on the budget and government expenditures. I am here to defend one program for $50 million, and it is a program I believe in, and one I believe I would be prepared to try to sell to your constituents or anybody else's in terms of its importance to protecting the national security. I think the arguments have to be stronger than ever these days and they ought to be clear and understandable by the average American.

I am confident that this program would meet that test.

Mr. ROTH. Thank you very much.

Mr. GALLUCCI. Thank you.

Ms. MCKINNEY. We will now hear from panel number three, Dr. Later Saiers, Acting Director, Agency for International Development; Peter Kimm, Director of Housing and Urban Programs, Agency for International Development; Nancy Frame, Deputy Director, Trade and Development Agency; Jane Chalmers, Acting General Counsel, Overseas Private Investment Corporation.

As soon as Mr. Saiers is ready, we can begin.

STATEMENT OF LARRY SAIERS, ACTING DIRECTOR, POLICY DIRECTORATE, AGENCY FOR INTERNATIONAL DEVELOPMENT

Mr. SAIERS. Thank you, Madam Chairwoman. I appreciate the opportunity to testify before the subcommittee on issues concerning AID's role in sustainable development and U.S. export promotion. I am joined today by Peter Kimm, who is the Director of AID's Office of Housing and Urban Programs who will address the subcommittee's questions on those programs.

Madam Chairwoman, exports are increasingly important to the United States and the U.S. economy. Our exports are up by nearly 21 percent in real terms since 1989 and exports accounted for over 85 percent of the increase in the U.S. gross domestic product since 1989. Less developed countries are increasingly important as U.S. export markets.

According to the U.S. Trade Representative's annual report, U.S. exports to LDC's rose 41.5 percent in the last 3 years and 13.5 percent last year alone. At the same time, over the past 3 years our exports to other developed countries rose a total of 13.7 percent, the same increase over a 3-year period that was achieved in our exports to less developed countries in 1 year.

Besides the more advanced developing countries, such as Mexico and the ASEAN countries, other LDCs are also growing markets. U.S. exports have grown steadily over the past few years across all of the developing country regions, whether Asia, Africa or Latin America. The Mexicos and ASEAN countries of tomorrow are being created even as we speak and AID is playing a key role in the process of sustainable growth and development in such countries.

How has all this happened? The backbone of sustainability, growth and development is expanding people's opportunities and their ability to respond to them.

On the one hand, the process of expanding human capacities, access to education, health care and reproductive choice increases productivity and gives people choices in how to order their own lives. AID is the largest donor in support of education and family planning programs, for instance. It has to do with developing institutional capacities, accountable democratic political institutions, effective private sector institutions that offer jobs and produce needed goods.

The second major area is to expand economic opportunity through growth. That is the root of the entire development process.

And programs ranging from microenterprise programs to help the very smallest businesses create jobs and reduce unemployment to promoting of outward oriented economic policies at the national level form the range of activities within the area of expanding economic opportunity through growth.

The outward oriented economic policies are particularly useful. In the 10 best policy performing countries in the world that receive AID assistance, our growth rate in exports was over 250 percent between 1985 and 1992. In the lowest 10, in the poorest 10 performing countries, the growth in exports was only 30 percent, one-eighth as much.

The third point on this whole question of sustainable growth is that economic growth is not sustainable without attention to the environment. There has been a long AID history of addressing environmental concerns; that environmental concerns receive priority in our country's development programs, and this priority will continue.

The less developed countries are giving increasing attention to this environmental issue, and it is reflected in the growing demand for environmental technology and growing income and opportunities for U.S. businesses.

AID has assisted in creating these opportunities through its privatization efforts, through its support to the combined U.S. efforts of the Commerce-chaired Trade Promotion Coordinating Committee, and by helping to supply access to the Global Environmental Facility that makes worldwide contracts available on an untied basis.

But there are a couple of other important points when it comes to the environment and technology. One of those is that small scale and disadvantaged firms need access to this growing market. It is that level of U.S. firm that provides, I think, the best prospect for growing exports for the United States. And, secondly, that technologies offered on the environmental side must not be too sophisticated or expensive for a particular developing country to be able to absorb and to maintain and make sure that it gets the proper use that was intended by it.

Without that, the technologies often end up being ill-used.

Madam Chairwoman, laying the foundation for U.S. exports is a role that probably 20 agencies of the U.S. Government are involved in. AID's role in U.S. export promotion is indirect. It lays the foundation for more direct programs administered by other USG agencies such as Commerce, TDA and OPIC, some of which are here today.

Our interventions help expand economic opportunity for people in developing countries, making them better customers for U.S. exports and enhancing investment climates.

If I could leave two key messages from this testimony with this committee I would say that AID's programs support countries' sustainable growth and development efforts, thereby boosting international economic growth and U.S. exports. And, secondly, that sustainability of growth requires attention to environmental impacts, and sustainability of environmental impacts requires attention to the other supporting investments in a particular country's context. That is, the idea that development is a very synergistic ef-

fort, that income growth, environmental protection and educational opportunities for the citizens of a country are all intertwined and cannot be disaggregated very well.

We in AID look forward to close cooperation with the Congress in shaping the future of foreign aid and, again, I want to thank you for the opportunity to testify. I have submitted a written statement that I hope will be entered into the record.

Thank you, Madam Chairwoman.

Ms. McKinney. It will. And thank you, Dr. Saiers. Mr. Kimm.

[The prepared statement of Mr. Saiers appears in the appendix.]

STATEMENT OF PETER KIMM, DIRECTOR OF HOUSING AND URBAN PROGRAMS, AGENCY FOR INTERNATIONAL DEVELOPMENT

Thank you, Madam Chairwoman, members of the subcommittee. I will briefly summarize the written statement that we have submitted.

The President has requested authorization and appropriations that will permit $110 million in U.S. Government guaranteed loans in fiscal year 1994. This will require $16.4 million of subsidy costs and $8.4 million for administrative expenses. In addition to this guarantee program, the AID Office of Housing manages the loan guarantee programs to Israel, which was approved by Congress last year, and which has recently disbursed $1 billion.

We manage the $400 million Israel housing guarantee program enacted in fiscal year 1991 and we manage approximately $250 million of grant-financed technical assistance in the housing and urban sector worldwide. Included in those figures are the AID programs in, and the urban programs in the former Soviet Union region, in Eastern Europe and in South Africa.

In the traditional developing countries, as opposed to the former Communist nations, we rarely finance directly the building of houses even though our name, the Office of Housing, suggests otherwise. And, in fact, we advise LDC governments that they should cease building houses and instead concentrate their limited construction budgets below the ground in urban water, sewer, roadway and slum upgrading systems. The construction of housing is then better left to the initiative of families and the private sector.

We believe that the introduction of this approach to the housing sector is a significant policy reform that has been adopted by many LDCs who are now able to better the lives of their low-income populations.

Almost half of the Third World population lives in urban areas and most of them are very poor. These numbers are rapidly increasing, and this is not necessarily all bad. In the cities, the skills and jobs are concentrated, and growth and urbanization go hand-in-hand. If AID is to be successful in achieving its goals, much of it will be measured on how well cities perform, and I include in those goals the environment, democratic government and basic human needs.

The Office of Housing assists in pursuing these goals by designing pilot projects that help to fund urban infrastructure on a self-financing, sustainable manner, projects which decentralize the design and financial responsibility for infrastructure from central

governments directly to municipalities, and which provide experts from organizations such as the U.S. International City Managers Association, the National Associations of Realtors, and the National Association of Home Builders, the Federal National Mortgage Association, to help the developing countries to prepare for these increased responsibilities.

Budget changes have affected the housing guarantee operation. While in the past we were legislated as an off budget activity, we have just completed our first year of operation on an on budget program under the truth-in-budgeting rules and credit reform. Credit reform has allowed us to pursue housing guarantee programs with all new obligations to be supported with annual appropriations on a pay-as-you-go basis.

Today, for every dollar of assistance provided by the housing guarantee program, OMB and the Congressional Budget Office estimate we will need appropriations of approximately 15 cents. We are proud of these numbers because we believe that we deliver a development program with policy and institutional reform similar to donor grant programs but at a much lower cost.

Madam Chairwoman, we have been given five questions by the subcommittee, which I was asked to address in my testimony and which are in my written remarks. I can either go through them or stop at this point.

[The prepared statement of Mr. Kimm appears in the appendix.]

Ms. McKinney. That is not necessary.

Mr. Kimm. Thank you, Madam Chairwoman.

Ms. McKinney. Thank you. Ms. Frame

STATEMENT OF NANCY FRAME, DEPUTY DIRECTOR, TRADE AND DEVELOPMENT AGENCY

Ms. Frame. Thank you. Good afternoon, Madam Chairwoman, Mr. Roth, other members of the subcommittee. It is a pleasure for me to be here this afternoon to testify on behalf of the Trade and Development Agency, TDA.

I, too, have submitted written testimony for the record and I will try to keep my remarks brief so that we leave some time for questions.

First, let me tell you that we are very pleased that the President has proposed a 50 percent increase in TDA's budget for fiscal year 1994. A $60 million appropriation we believe will enable us to do a better job to assist U.S. companies to compete for export opportunities in these large but risky markets in the developing countries.

As you know, Madam Chairwoman, TDA is a commercially oriented foreign assistance program. Our grants enable developing and middle-income countries to obtain U.S. expertise in planning their priority infrastructure projects. These are projects that will have a significant impact on the country's economic development. But, at the same time, these projects are also ones that present substantial export opportunities for U.S. equipment and services suppliers.

To date, U.S. exports associated with TDA projects are estimated to be over $4.6 billion. Excluding TDA expenditures from the last 2 years, and in most cases it takes at least 2 years before the projects that we are involved in yield exports, TDA projects since

1980 have been associated with a return of more than $25 in U.S. exports for every TDA dollar invested in the projects.

But exports and jobs are only part of the TDA story. To fully appreciate the important role TDA plays in stimulating the U.S. economy, I would like to tell you about TDA's recent program in the former Soviet Union, also known as the Newly Independent States, or the NIS.

I think as I describe this program it will illustrate what a small amount of U.S. foreign assistance can do to help U.S. companies as well as foreign countries. TDA's approach in the NIS, as it is elsewhere, is to leverage U.S. Government resources for the maximum benefit of both the recipient country and the U.S. private sector. We do this primarily by providing grants for feasibility studies on major infrastructure and industrial projects. These studies, which must be carried out by U.S. firms, are crucial, since they are a prerequisite for arranging financing for projects.

Our basic operating premise is that if U.S. firms are engaged in the initial planning stages of a project, then the likelihood of U.S. export sales and downstream activities related to that project is greatly increased.

TDA moved swiftly to establish its program in the NIS. In a little over a year, it has become one of our most active programs in the world. We have funded 24 feasibility studies and a number of other activities totaling $11 million.

Despite the enormous opportunities in the NIS, many U.S. companies understandably remain hesitant to commit their own resources in this difficult and risky market. By providing grants for project planning studies, TDA provides an incentive for U.S. firms that are interested in developing business in the NIS but are unable or unwilling to assume all of the political and economic risks.

We also recognize that U.S. firms are operating in the NIS under less than favorable conditions, vis-a-vis their European and Japanese competitors. For one thing, Russian and other NIS authorities are used to dealing with foreign partners on a government-to-government basis. So that while many U.S. companies are spending their own resources to develop new markets in the NIS, they find they are not always successful because their competitors have the direct or indirect support of their governments, including both financial and political support.

Thus, TDA participation can put U.S. companies on a more equal footing with their competition by raising the profile of a project in the eyes of the foreign countries. We call this wrapping the project in the American flag. In all of these ways, TDA helps American companies overcome some of the barriers to trade and investment in the NIS.

But I would not want you to think that we are focusing on the NIS to the detriment of other parts of the world. In other regions TDA's program remains strong and active. In fact, demand for our program continues to increase as more countries are eligible for TDA assistance, and more companies know about our program.

In Asia, we have focused our funding in the energy sector. Projects we are participating in, such as a series of ASEAN power grid interconnection projects and major energy efficiency and ex-

pansion programs in Thailand and Malaysia, offer excellent opportunities for U.S. companies.

TDA is also an active player in the U.S.-Asia Environmental Partnership. U.S. companies offer some of the world's most advanced technologies in the environmental services sector. And in fiscal year 1992, TDA committed over $1.7 million to environmental projects in this region in support of U.S. companies' efforts to enter those markets.

TDA's program in Central and Eastern Europe continues to assist U.S. companies provide advanced technologies, goods and services to rebuild the infrastructures of these budding democracies. The projects we support are varied from power plant rehabilitation in Lithuania to telecommunications modernization in Hungary. All of these projects we work on are the top priorities in these governments.

Latin America, of course, remains a natural market for U.S. companies. We focused our efforts in Latin America on Mexico, Chile, Argentina and Venezuela because these are the countries that have made the greatest gains in privatizing their industries, opening their markets to foreign investment and restructuring their foreign debts.

As other countries in the region move in the same direction, TDA's activities will also broaden. Africa remains a challenge for U.S. companies. Competition continues to be strong from Africa's historical European trading partners who are active supporters of commercial development in their former colonies. TDA's approach to this region is to take a long-term strategy and support U.S. companies in their most competitive sectors, such as agriculture, energy, mining, aviation and telecommunications.

In conclusion, Madam Chairwoman, I would like to underscore our belief in the special importance of the trade and investment assistance that is provided by TDA and the other agencies that are represented here today. In the large but risky markets in the developing and emerging economies of the world, our assistance is often essential in facilitating U.S. investment in exports.

This assistance also enables our private sector to play an important role in supporting economic growth and opportunity around the world.

Finally, I want to thank you and the entire subcommittee for the strong support that you have provided to TDA. We look forward to working with you to make our agency an even more effective program.

Thank you, Madam Chairwoman. I would be happy to answer any questions.

[The prepared statement of Ms. Frame appears in the appendix.]

Ms. McKinney. Thank you. Ms. Chalmers.

STATEMENT OF JANE H. CHALMERS, ACTING GENERAL COUNSEL, OVERSEAS PRIVATE INVESTMENT CORPORATION

Ms. Chalmers. Thank you, Madam Chairwoman.

With your permission, I will also ask my written statement be submitted for the record and I will try to keep my remarks brief.

Ms. McKinney. Without objection.

Ms. Chalmers. Thank you.

Madam Chairwoman, Mr. Roth, and members of the subcommittee, I am honored to be here today representing OPIC pending the arrival of our new management. As you know, President Clinton has nominated Ruth Harkin to be the next President of OPIC and Christopher Finn to be the Executive Vice President. We look forward to their arrival and to their leadership of our agency.

Let me begin by expressing appreciation to the subcommittee for its diligent work last year in getting the Jobs Through Exports Act passed. That act will help make OPIC more effective in creating jobs for American workers and strengthening America's competitiveness in global markets.

Your letter inviting us to this hearing asked OPIC to address a number of issues, some of which are going to be hard for us to answer at this point in the transition. Nevertheless, I hope I can help you in your task and in the process add to your understanding of OPIC's programs.

At the outset, for the benefit of the new members let me briefly describe the Overseas Private Investment Corporation. It has long been recognized that American private investment overseas plays a vital role in economic development around the world. American private investment abroad can also contribute substantially to the strength and growth of the U.S. economy by improving American competitiveness in the international marketplace, increasing U.S. exports and thereby creating American jobs.

OPIC's role as a U.S. Government agency is to encourage mutually beneficial American private investment in developing countries and emerging democracies. OPIC was established by statute as a separate agency in 1969, but its programs go back to 1948 with the Marshall Plan efforts to help with reconstruction of postwar Europe.

Today, the United States faces challenges and opportunities that are in some respects comparable to those we faced in the era that gave rise to the Marshall Plan. Given the need to increase America's commerce with foreign markets and the rapidly changing political conditions of today's world, OPIC's risk-management programs have never been more important.

OPIC operates three principal programs. First, its financial program provides capital for long-term investment through direct loans and loan guarantees. OPIC's direct loan program is reserved exclusively to support U.S. small businesses.

Second, OPIC ensures private U.S. investments against a broad range of political risks including expropriation currency and convertibility and political violence.

Finally, OPIC provides a variety of preinvestment services that help U.S. businesses obtain the information and guidance they may need to put together an overseas investment project.

In providing this assistance, OPIC has strict eligibility requirements. OPIC screens out any project that might have a negative impact on the environment or on the American economy. As a result, OPIC-assisted projects provide significant benefits for the United States.

Host country developmental effects are important to OPIC as well. OPIC-assisted projects help alleviate two of the most pressing problems faced by developing countries: a chronic shortage of for-

eign exchange, and the widespread unemployment and underemployment of their people.

OPIC operates at no net cost to the taxpayer. OPIC was created in 1969 with seed funding of $106 million, all of which has long since been returned to the U.S. Treasury. Our capital and reserves stand at more than $1.8 billion, representing an excellent return on the taxpayers' original investment and providing a strong financial base to support our activities.

In fiscal year 1992, OPIC posted a record net profit of $159.9 million. OPIC also paid a dividend of $17 million back to the U.S. Treasury. This is the same amount that OPIC received as appropriated funds in fiscal year 1992 under the credit reform law.

During 1992, OPIC helped American companies undertake 118 separate finance and insurance projects creating $8 billion of economic development. These projects will support more than 24,000 person years of U.S. employment by producing more than $3 billion in new U.S. manufactured goods and services for exports over a 5-year period.

The number of countries eligible for OPIC's services and programs continues to increase. By the end of the year, OPIC was operating its programs in 140 countries around the world. Eighteen countries have been added to this list in the past 2 years, including all of the Newly Independent States of the former Soviet Union except for Azerbaijan.

OPIC's fiscal year 1992 project will also provide significant economic and social benefits for host countries, generating more than 47,000 jobs.

With this general background, let me briefly summarize some specific fiscal year 1992 highlights beginning with our activities in the Newly Independent States of the former Soviet Union.

Probably our most significant action to date in Russia was announced by President Clinton at the recent U.S.-Russia summit in Vancouver with President Yeltsin. OPIC will provide a $50 million loan guarantee and $100 million in investment insurance coverage for the Polar Lights Project being undertaken by Conoco to support a major oil development and production project critical to the Russian energy sector. This would be the first new Russian oil field to be developed by a U.S.-Russian joint venture. The project is OPIC's first loan guarantee and represents the largest amount of OPIC's insurance coverage issued to date in Russia.

This project is expected to create U.S. exports of $100 million, generating an estimated 180 U.S. jobs. It will also benefit the Russian economy and introduce important environmental safeguards through the introduction of new technologies.

There is enormous interest among U.S. investors in pursuing projects in the former Soviet Union. OPIC has registered over 400 potential insurance projects in the former Soviet Union, totaling $28 billion in anticipated investment, representing more than a quarter of our total registrations worldwide. While only a fraction of registered projects can be expected to go forward, these numbers are indicative of the level of interest in the region relative to OPIC's experience elsewhere in the world.

At the same time, OPIC has not neglected its mission to provide assistance in other parts of the world, including Africa.

For the first time since most of Africa became independent, the private sector is coming to the forefront of development strategies throughout that continent. From Sierra Leone to Uganda, African countries have begun to free prices, open markets and initiate privatization programs—all necessary strategies to free up their productive capacity and lay the groundwork for more economic growth.

OPIC has responded to these positive changes in Africa by deepening its already significant commitments to the region. In fiscal year 1992, we supported 22 African projects, more than double the number assisted in the previous year.

For example, in Ghana, we supported a small investment in a vehicle distributorship that will result in U.S. exports in excess of $3 million during the first 5 years of project operations. This project helped U.S. auto manufacturers, including Chrysler, Jeep and General Motors, to expand their export sales.

In addition, related joint venture agreements with U.S. tire, tool and spare parts manufacturers will enable the distributorship to service its American-made products better and to compete more effectively with its Japanese and European counterparts.

Similar things are happening in Latin America, where economic reforms have expanded commercial opportunities by creating more favorable investment climates.

OPIC made direct loans and investment guarantees to support projects in sectors ranging from telecommunications to tourism that will result in significant private sector involvement in industries traditionally dominated by state-owned enterprises.

OPIC continues to work with the U.S. private sector to leverage its resources by developing private sources of capital to target investment in new, expanding or privatizing enterprises in specific regions or sectors through its family of growth funds.

Ms. McKINNEY. Ms. Chalmers, we can accept the remainder of your testimony, if you would like.

Ms. CHALMERS. Thank you very much.

[The prepared statement of Ms. Chalmers appears in the appendix.]

Ms. McKINNEY. Thank you.

Do you require any new authorization for this year?

Ms. CHALMERS. As you are aware, the Jobs Through Exports Act that was passed last year gave OPIC a 2-year authorization which takes it through the end of September of 1994. The administration does not have any additional request for authority at this time.

Ms. McKINNEY. Great.

Because of the kindness of our Ranking Member, we are going to allow Ms. Cantwell to go first.

Ms. CANTWELL. Thank you, Madam Chair. I appreciate that.

I have a question for Dr. Saiers, and appreciate the panel being here today to inform us of the changes and some of the initiatives being undertaken.

I know the administration is obviously going to look at major reforms in how we conduct our foreign aid programs, but I guess specifically I am interested, I have heard some comments about how the Private Enterprise Bureau is already undergoing some changes, and I was hoping, Dr. Saiers, you could tell us about that.

And given the fact that the administration is focusing on the types of initiatives we would like to see in the former Soviet Union, how would you envision the management and oversight of that program?

Mr. SAIERS. Well, Ms. Cantwell, we have all heard the rumors about the premature demise of the Private Enterprise Bureau in the agency and, the fact is, there has not been a decision made one way or the other as to what will happen with the Private Enterprise Bureau or the programs that are still in the budget there. So that I think it is premature.

Brian Atwood, at his confirmation hearing last week as administrator of AID, said he will be looking into these issues as a first priority as he comes on board. But I don't think it is fair at this stage to speculate one way or the other as to what ultimately will happen to that bureau. He has not made any decisions on it. He has not had discussions, at least at the staff level, as to how to go about it. So I would prefer not to speculate on what ultimately may happen with that bureau.

Ms. CANTWELL. Perhaps you could elaborate a little bit. Who controls the purse strings right now on those grants and also on the TDA dollars——

Mr. SAIERS. TDA dollars, I would ask——

Ms. CANTWELL [continuing]. For the former Soviet Union. I have several constituents who are concerned about grants now being held up, which seems to be internal turf battles, and I would be happy to provide you with information of these particular grants, but I am concerned that as we go through this process, that we give a clear signal to those who are out there organizing what I think are very constructive efforts at investment in the former Soviet Union.

Mr. SAIERS. The programs that are managed by AID in the former Soviet Union are decided upon in a working group under the chairmanship of the State Department, working with AID and other agencies that operate in the former Soviet Union, and the decisions are made for programs in that working group environment.

AID has the fiduciary responsibility for those programs, but the overall decisionmaking process is done in a broader context.

Ms. CANTWELL. Well, so, is it possible, then, that the NIS task force could be holding up some funds from the Private Enterprise Bureau?

Mr. SAIERS. I suppose that is possible but, to my knowledge, I don't know of any cases where, in fact, that is being done.

Ms. CANTWELL. Ms. Frame, are you getting the dollars you need?

Ms. FRAME. Ms. Cantwell, TDA has already obligated about $4.5 million to the NIS countries. That is the amount that we allocated for the NIS this year.

We are anticipating a transfer of between $2 and $4 million from AID, and we understand that will be coming in the next several weeks.

Mr. SAIERS. Ms. Cantwell, I think if there is a problem there are over 500 proposals that have been received for assistance to the former Soviet Union from outside groups seeking assistance and, to the extent there are hold-ups, it may be due just to the fact of the

sheer volume of requests that have come in that have to be reviewed to decide which of those are the most worthy of funding.

But, other than that, I don't know of any specific reason why programs would be held up other than just the queuing problem of so many requests coming in.

Ms. CANTWELL. Perhaps we could work with your staff on that. Thank you.

Ms. MCKINNEY. Mr. Roth.

Mr. ROTH. Well, thank you, Madam Chairman.

Ms. Chalmers, your Jobs Through Exports bill is a good piece of legislation. I am glad to see you working on it because it creates jobs in America and I think that is what is important on it. So I appreciate your work in that area.

It amazes me, however, whenever we have these hearings you have people saying all the great things we are doing overseas, we are doing this, we are getting microenterprise, housing guarantees, pipelines, and then I see things in the newspaper, for example in L.A., after defining the employment needs in South Los Angeles, 95,000 jobs, only a few thousand were delivered. Elected Democratic President Bill Clinton made the unspoken deal with community and he said, Vote for me as if your life depended on it, and he courted the Reagan Democrats and he said, Life is going to be better; wait until after the election.

Now the question I have, Mr. Kimm, you had mentioned your housing guarantees, do we have an equivalent program for Americans?

Mr. KIMM. Not as part of the Foreign Assistance Act.

Mr. ROTH. Well, of course not. Maybe if Americans were getting foreign assistance, we would pay more attention to them.

But I have a question. I am just asking you, do you know of any program that gives these benefits to Americans?

Mr. KIMM. I think the program is modeled in a general way under the FHA, that is where the U.S. Government guarantees——

Mr. ROTH. That is barnyard stuff. I am asking you a question, sir, do you know of any program that is giving Americans the same benefits we give to foreign people?

Mr. KIMM. I have no further answer to that.

Mr. ROTH. Of course the answer is no, then. You need these appropriations to cover any losses or anticipated losses on these guarantees?

Mr. KIMM. Right.

Mr. ROTH. You do?

Mr. KIMM. Yes.

Mr. ROTH. So the American taxpayer is getting a double whammy. First he is giving all kinds of guarantees and then he has to pick up even the losses of the guarantees; is that a correct interpretation?

Mr. KIMM. Yes, sir.

Mr. ROTH. No wonder the people are upset in this country.

Dr. Saiers, you are the acting director of the AID.

Mr. SAIERS. The acting director for policy.

Mr. ROTH. For policy. Well, you have a very important position, then. The question I have for you is this article that I saw in the *Washington Post* dealing with "do something about foreign aid."

Well, they talk about all the waste, fraud and abuse, and it says that we have had 14 separate AID management studies, 7 different AID Inspector Generals and, you know, we have had studies till hell won't have it. What is being done?

Mr. SAIERS. Mr. Roth, on the receiving end of an awful lot of these studies, I appreciate just how many there have been. I believe that this administration has begun a process to review the entire U.S. foreign assistance effort. This was originally called for by Senator Leahy, to relook at what should happen with foreign aid after the demise of the Communist bloc.

Deputy Secretary of State Wharton has put together a broad team, a task force, in which all the agencies that have programs in the International Affairs Function 150 account have participated, to look at the relationships and the kinds of programs that ought to be supported in a new vision and mission for the foreign assistance program. They are nearing the conclusion of that process now.

Mr. ROTH. My dear friend, after all of these studies, and we have—I don't know—reams and reams of studies, what has been done? What specific steps have been taken? Don't tell me the answer is none.

Mr. SAIERS. No, there have been steps taken, Mr. Roth. I think many of them are incomplete. Many of them——

Mr. ROTH. Give me just one that has been completed after these hundreds of studies.

Mr. SAIERS. There has been put into place a process by which the agency has a much stronger capacity to measure what actually gets accomplished with programs. That was a highlight in several of the early studies, that AID does not understand and does not learn its lessons well from programs that have been carried out in the past.

There is now a much stronger capacity to measure, to set objectives for a particular country program and to measure the results that come out of those programs. About 70 percent of the resources in AID are now covered under such a program and that, we hope, will be up to 100 percent within the next year. That is one example.

Mr. ROTH. Actually, the answer is nothing has been done.

Here is what really upsets me. We have Clifton Wharton coming back, as Christopher promised, with his study, and then, at the same time, another administration task force is at work on major foreign aid reform. In other words, the right hand doesn't know what the left hand is doing. We have all of these studies and we have an agency filled with waste and abuse.

I had an amendment last year in the pipeline. You have $8.8 billion you have had in there for over 10 years. GAO did a study that said after 2 years all that money ought to be deauthorized. So I had an amendment on the floor to deauthorize it after 3 years, so that people who didn't have the spine could even vote for it. The House passed it and, in conference, they threw it out again.

Until this Congress comes to people like you and says, We have to make these changes; we are not going to stand for this any more, you will keep going the same old way.

Look at this. We are marking up a foreign aid bill and we don't even have a study done. This is totally asinine, and I can't blame the American people for being upset.

So I have no faith that you are going to clean up. But if you can convince me otherwise, I would like to hear an answer. I mean, after all these studies, nothing is done? This is just unbelievable.

But I know you have a tough job and you have other bosses, too, so I appreciate being able to discuss that with you. But I think you have to take a look at things like this, don't you?

Mr. SAIERS. Absolutely, Mr. Roth.

Mr. ROTH. Thank you.

Thank you, Madam Chairwoman.

Ms. MCKINNEY. Thank you. Mr. Wynn.

Mr. WYNN. Thank you, Madam Chairwoman.

Dr. Saiers, has there been any shift in emphasis with respect to developing countries away from commercial contracts and toward education projects, things like that?

Mr. SAIERS. Mr. Wynn, there has been a movement toward education programs over the last several years from a variety of sources. As a rule, if you look at the overall budget, most of our resources go into promotion of improvement in the social climate in developing countries, and there has been over the last several years somewhat of a decline in the amount of money going into capital projects, if that is what you mean by the commercial programs.

Mr. WYNN. There is a decline in capital projects through AID; why is that?

Mr. SAIERS. I think, Mr. Wynn, the agency has worked to try to build its programs from the bottom up; that is, what is most needed in a particular country at a particular point in time. Some of it is happenstance. It is, in fact, the summation of what AID missions believe are the important issues to be dealt with, where they see the priorities.

In an age of shrinking budgets, with the expanded importance over environmental issues, the expanded importance over population issues, the expanded importance of health and education issues, such as AIDS, the numbers just mean that as some things go up, other things, of necessity, will not be able to be maintained.

Mr. WYNN. It seems to be somewhat in direct contradiction to the testimony of Mrs. Frame, who is seeking additional authority for capital projects.

But my question is really this. Doesn't that mean a net reduction in the number of commercial contracts available for U.S. businessmen?

Mr. SAIERS. Depends on how you look at it, Mr. Wynn. I believe that the major role that AID has to play in terms of promoting the health of the U.S. economy is through the demand side—of creating a demand for U.S. exports by improving the growth rates, the income levels and the living standards of people in developing countries. They become better customers that way.

I think that the OPIC, TDA, Eximbank, Commerce Department's nexus of programs is intended to spur the supply side, that is, to spur the promotion of exports more directly. We are trying to create an improved market for it.

And to the extent that the less developed countries have been growing more rapidly, even in an imperfect overall environment, less developed countries have become, one, the fastest growing market for the United States and, two, I think, a market that is bigger than either the market in Japan or the market in Western Europe. So I think it is not inconsistent that we have different mandates to try to follow.

Mr. WYNN. Well, I will have to share with you that there is concern in some sectors that the movement toward commercial development in Eastern Europe as opposed to decline in commercial activity in developing countries represents, let's say, a disparate utilization of AID funds.

Let me ask you this. On page 7 of your testimony, you indicated that you have an active Office of Small and Disadvantaged Business Utilization. What has been the growth of disadvantaged utilization in AID over the last 5 years, or lack of growth, as the case may be?

Mr. SAIERS. Mr. Wynn, I would have to provide the specifics on that for the record. What I can say is that there has been very active participation in attempting to build a broader understanding among the small and disadvantaged businesses in the United States about not only AID's programs but about programs of the World Bank and other donors.

In the last 3 months, our Office of Small and Disadvantaged Business Utilization has held a seminar in Los Angeles, for instance, in Los Angeles that between 350 and 400 firms attended to get information, understanding of how to access the resources in those programs.

But the actual numbers, the dollar values of contracts that have been awarded, I just don't have the data in front of me.

Mr. WYNN. Dr. Saiers, let me first compliment you on the seminar and, second, specifically request on the record that you provide me with the numbers regarding minority business utilization. I would like to know specifically what the pattern has been in terms of the contracts to small and disadvantaged businesses over the last 5 years.

Mr. SAIERS. Be happy to do that.

Ms. MCKINNEY. If the gentleman would yield, I would like to get that information too.

Mr. SAIERS. We would be happy to provide that.

[The information appears in the appendix.]

Mr. WYNN. Ms. Frame, you indicate that you would like expanded authority, or actually the authority to provide guarantees and grants to support capital projects. What would be the risks associated with this authority, with undertaking these kinds of guarantees for capital projects?

Ms. FRAME. Mr. Wynn, the administration is not requesting expanded authority for TDA. We are requesting a 50 percent increase in our budget, up from $40 million to $60 million, but we are not requesting an expanded authority.

Mr. WYNN. Would you be receptive to a grant of authority over capital projects? And again, do you see any risks with having authority for capital projects?

Ms. FRAME. Well, as has been discussed already, the administration is currently reviewing all of our foreign assistance programs, and the President has set a high priority on reform of foreign assistance. So I think we will probably be discussing some new issues with you.

At the moment, we don't have a position on guarantee authority for TDA.

Mr. WYNN. Would your agency be capable of carrying out that kind of guarantee authority? What would be your opinion of that?

Ms. FRAME. If Congress were to give us a guarantee authority?

Mr. WYNN. Yes.

Ms. FRAME. It would certainly require some administrative changes, notably in the area of personnel.

Mr. WYNN. How many additional personnel would you say would be involved?

Ms. FRAME. It would be difficult for me to speculate. To the extent we got new authorities, we would certainly want to work with your committee and with the business community and, of course, within the administration to see what would make sense.

And I would just add that if we were to get any kind of expanded authority, we would want to carry that out in a way in which we now operate, which is to leverage money, to be responsive to the business community, to keep our overhead low, those kinds of things.

Mr. WYNN. Thank you.

One final question for Ms. Chalmers—actually it is a couple. One, you said you had a 2-year authorization. What was the amount of that authorization?

Ms. CHALMERS. That was 2-year operating authority.

Mr. WYNN. Operating authority, excuse me.

Ms. CHALMERS. For our programs to have the legal authority to continue to operate. I believe that the total amount of finance authority that was provided for this year was $650 million for both our loan guarantee and direct lending program.

Mr. WYNN. I believe you said there were no taxpayer funds associated with that.

Ms. CHALMERS. Under the credit reform law, beginning with the last fiscal year, 1992, we have required appropriations of the subsidy cost element for our credit programs only.

Mr. WYNN. How much is that?

Ms. CHALMERS. Last year our total appropriation was about $17 million and as I think I mentioned in my testimony, OPIC also paid back to the U.S. Treasury a dividend of $17 million to come out even with respect to those funds.

Mr. WYNN. So we are square there.

Ms. CHALMERS. Exactly.

Mr. WYNN. Under your finance program, what is the criteria for that program?

Ms. CHALMERS. Well, there are a number of different criteria for the program. We have two different components to it. One is a direct lending program which has to involve U.S. small business sponsors. The loan guarantee program is not limited to U.S. small businesses, but for both parts of the finance program there must

be significant U.S. company involvement in the project in the developing country.

We also review all those projects for the effect on the U.S. economy, to establish that they will not have a detrimental effect on jobs in the United States. We review them for their environmental impact in the host country and we review them for their developmental benefits to the host country.

In addition, we do a very careful credit review to establish that the project is projected to be creditworthy, so that we won't end up having losses on our finance program.

Mr. WYNN. Could I ask you to provide me with the same data that I asked from Dr. Saiers regarding the degree of minority participation?

Ms. CHALMERS. I will be happy to provide you what we have, Mr. Wynn. I believe that this is not something on which we have kept statistics, but I will be happy to see what we can give you.

[The information appears in the appendix.]

Mr. WYNN. OK. Thank you.

Thank you, Madam Chair.

Ms. MCKINNEY. Thank you. Mr. Rohrabacher.

Mr. ROHRABACHER. Just a note, and I know that Mr. Roth has been here for many years and had to go through hearings like this, and sometimes it probably has resulted not in skepticism but cynicism about the potential of certain government programs, not just in the foreign aid area but in other areas.

We will be shifting on to our grandchildren $400 billion worth of debt this year, meaning the entire foreign aid budget, if you want to look at it that way, will not be paid by this generation but will be paid by two generations to come. That is one of the reasons why, when we are talking about expenditures overseas, in particular, as compared to expenditures that will be spent right here, that there is a great deal of care that is taken in making those decisions.

Let me note that I voted against foreign aid the last two times we had a chance to vote on it. I think Toby probably did as well. I think and I would agree, and just to put on the record, I would agree with my colleague that at a time like this, we have to really ensure that we are not sending dollars overseas at a time when we are borrowing those dollars from our grandchildren.

Housing projects, whether housing in Israel or anywhere else, we have housing problems in the United States. We have people who are struggling to find decent housing in the United States.

One of you mentioned that, for example, in the export development area, that we received $25 back in actual import or business with our exporters for every dollar that was spent in the export promotion.

Wouldn't it be fair for us to assume that that $25 that is being made by private corporations and, thus, we are talking about fairly wealthy people in our society who end up benefiting directly by that, and shouldn't they be then expected to repay that money, that $1 of the $25 that was returned? Shouldn't that be all paid back? Who knows about that? Who can comment to that?

Ms. FRAME. Well, Mr. Rohrabacher, I think you are referring to the comment I made in my testimony. What we find is that the $1 that TDA spends has replication effects all over the United States,

not just for big companies but for small and medium-sized firms, for small independent consultants. And so if we put a dollar into a feasibility study, if that project moves forward, it may be a large company that implements the project. For example, an AT&T may do a telecommunications project, but they have identified for us the small companies all over the United States that are benefiting. It means jobs for U.S. citizens.

Mr. ROHRABACHER. Sure.

Ms. FRAME. So every export that is created creates jobs for U.S. citizens. So that I think——

Mr. ROHRABACHER. But the bottom line on these companies that are providing the jobs, they are also providing profit for the people who own the companies. And is the profit margin made on this in this program—I guess what I am trying to say, when you are talking about creating an economic situation with an expenditure of money at a time when we are having to borrow the money from our grandchildren, it is not unreasonable to expect we would try to have that money paid back by the people that are profiting from it. Would it be? And has there been steps to see if that could happen?

Ms. FRAME. Well, this is certainly an issue that we have been looking into, and we would be very happy to work with this committee in this regard. What we have done to date is to cost-share with the U.S. firms that do the feasibility studies. As opposed to putting the money up front and then having them pay us back later, which is an administrative burden, we have required the cost-sharing up front. So the U.S. Government puts in just a small portion or up to half of the feasibility study.

The other issue around this idea of returning to the U.S. Government the amount of money we spend is the fact that the companies that benefit down the road from our studies aren't necessarily the companies that actually got the grant to do the feasibility study. So sometimes it is hard to figure out who—you know, it wouldn't really be fair to have the company that did the study——

Mr. ROHRABACHER. There are situations—in dealing with our AID budget, for example, we heard the talk about the promotion of U.S. exports. You know, there are some big companies that end up—who can promote their own products; you know, they make a large profit, a big profit, and these big companies end up as we are just struggling to get enough money for basic programs.

I went to a town hall meeting in my district where these fellows who—men and women, I might add, who have just served this country all their lives, teachers or in the military or whatever, and they can't pay for their medicine. And it is—you know, it breaks your heart to see that there is medicine available, but they can't afford it; and then to note that we spend, you know, so many millions of dollars so that some company that has a huge profit margin can promote its products overseas, but why can't they promote their own products overseas.

And I think what I am talking about is still part of our AID budget from what I am hearing today. Am I wrong?

Ms. FRAME. No, you are correct. Our budget comes from foreign assistance appropriations.

Mr. ROHRABACHER. OK. Well, I don't see that American companies that are making large profits should be—should basically have their advertising and their promotional costs subsidized by the American taxpayer, whether it is overseas or here.

Ms. FRAME. I understand what you are saying. I think we have to come back to focus on what happens when these companies export goods overseas, and what happens is, these exports create jobs.

Mr. ROHRABACHER. True.

Ms. FRAME. We had a situation in the NIS where we were helping a fairly large company undertake a feasibility study to enable them to move forward on a big pipeline rehabilitation project. But as that project moves forward, there is a company in California that will supply some of the products for that project, and——

Mr. ROHRABACHER. But let me note this.

Ms. FRAME [continuing]. If this project moves forward, it will create 200 new jobs in California.

Mr. ROHRABACHER. Let me note this: That same amount of money, if that money was invested in anything, it would create jobs anyplace. For example, Republicans are always pushing for—and unfortunately the Democrats will never give us the chance—of having enterprise zones in the inner city, and we would like to see investment down there, and that would create at least an equal number of jobs. I just thought I would express that.

One last thought. I know that we want other countries to develop, especially countries that are coming out of tyrannical and communistic and other dictatorial types of regimes, but you know, unless—no matter how much money we are pouring into these countries—I mean, it is like—I guess I will put it this way: It is like a gnat on an elephant's back, you know, the impact that it will have on their economy, unless you have got—for example, I know in the Soviet Union, unless you have a stable currency, no matter what we put in there, it is going to go right down the drain unless they have a commercial code that protects the rights of people who own property and to settle disputes in a legal system.

You know, they have got some fundamental reforms that have to take place in these countries, and sometimes I think that if we have an aid program that guarantees the loans of our own businessmen to come over there, sometimes I think it takes the pressure off them to correct those very things that are keeping the businessmen out in the first place.

Go right ahead and comment. I am just throwing this out.

Mr. SAIERS. I wasn't sure you were asking a question. One does have to be careful that you do not subsidize inefficient systems and corruption, absolutely. By putting resources in, you help sustain that inefficient and corrupt system. I think that is a major part, Mr. Rohrabacher, though, of the new vision about what is expected of countries before they are eligible to receive assistance in the future; and that is that they move toward more democratic and open regimes, more accountable regimes, ones that put into place a set of economic policies which will encourage private sector growth and development, rather than a system set up for only a few.

I think the world is moving in that direction and moving in that direction very rapidly.

It is not easy. I wouldn't want to be the person trying to figure out how to move Russia from where it is today to somewhere else, but I think that is the wave of the future. I think all of the international community recognizes the necessity to do that and to, in effect, only support those regimes that are moving in that direction and moving very strongly.

Mr. ROHRABACHER. You are talking about conditionality, and I would hope that America never gets itself in a position again, like we were in the cold war, where we just had to dish it out, hoping we were going to buy people off, but conditionality certainly is an important element.

But let me note there is another "C" word in there, and that is collateral. These people have mineral resources, and a lot of these countries that we are talking about have mineral resources and other resources and things that they could actually put up as collateral. I just wanted to note that, as a Republican, I don't just complain when—you know, unfortunately, people in my party would always complain about welfare recipients, you know, getting money from the government. Well, a lot of our big businesses have been much more abusive of the largesse of the American people than just some poor folk down in Orange County or anywhere else where they are getting welfare.

And welfare means welfare for business as well. Sometimes we lose sight of that.

Ms. MCKINNEY. We appreciate those comments. I am going to ask that we adhere to the 5-minute rule. I have been a little bit lenient, and I will assess that to myself as well.

Beginning with Dr. Saiers, please, could you—first of all, would you support the establishment of a real commission to ensure U.S. commitment to agenda 21? And I would ask that you be brief and direct.

Mr. SAIERS. Ms. McKinney, I think that question is under consideration within the administration, but since it would affect a large number of government agencies, I think that is something best left to a higher level of debate than within one agency itself.

Ms. MCKINNEY. OK. I am also concerned about the accountability of funds that are spent by AID. What kind of assurance can you give us that the monies that are appropriated really get to the proper source, and then that the benefits that we hope to see occur really do occur within the poorest populations, or the target populations?

Mr. SAIERS. Part of that is a very difficult question. On the accountability side, I believe that there are systems in place that provide adequate accountability for U.S. Government funds. That is not to say that funds never go awry, but most of the cases in the past where there has been misuse of funds have been found out, it has been found out by AID staff themselves in terms of their oversight of taxpayer funds.

When you are providing assistance to a very large number of grantees and a very large number of environments, even under the best of circumstances, it is going to be very difficult to prevent, in the first instance, things going wrong from time to time. But in the majority of cases, some of those that have been more popularized

in the last few years, it has been AID staff themselves who have found out about the misuse of funds.

So I believe the accounting system, while it is never going to be perfect and it is never going to be able to prevent every possible abuse in the kind of an environment within which AID works in many of these countries, in fact, the accountability is pretty good.

On the question of being able to say, does it actually have the impact on the people that it is intended to have, I think part of my answer to Mr. Roth's question about what is being put into place to fix things within that agency, the concern that we have is that too often in the past we have all focused on the spending of the money; and I think we all agree it is not the spending of the money that is important. Taxpayers don't want to hear that. It is the results that are accomplished with those resources.

The Agency has been moving to put into place a mechanism—mechanisms—by which to measure the actual impact on people that it is intended to have an impact on, and not just being able to report that, yes, we spent $400 million on population programs or $200 million on other programs, but what actually happened to infant mortality or what actually happened to job creation in these countries.

That is a process, I think, that Mr. Atwood is going to push very hard. I think it is certainly part and parcel of the process of Vice President Gore's commission on looking at "Reinventing Government" and the fact that you have customers out there and you have bottom lines that you should be responsible for, not just spending taxpayers' money.

Ms. McKinney. That is true, and I should say that I lived in one of those recipient countries, and I just couldn't see the benefits flowing down to the ordinary citizens where I believe the funds should have been directed.

Also, I should add as a member of the House Agriculture Committee, we have received a lot of testimony from witnesses who have come in and said that AID needs to be overhauled because it has just been ineffective and inefficient.

Would you please provide us a list of all AID projects included in the $650 million, and the information that was requested for the environment, and the information that was requested on Minority participation also within—gee, 5 minutes goes by real fast.[1]

Your answers were not direct enough—within 5 working days.

Would you be interested in another round?

Mr. Roth. No.

Ms. McKinney. You see, they tell me I can break the rules already.

Mr. Kimm, do we target the poorest countries in the housing program, and if not, why not?

Mr. Kimm. Well, the resources that we are requesting today for the housing guarantee program result in loans at something close to market rates; and in general, they do not go to the poorest countries, they go to countries that are creditworthy and who can absorb such debt without its doing harm to their economy.

[1] The listing of all AID funded environment and energy projects proposed for obligation in fiscal year 1993 are retained in the subcommittee file.

We do do housing activities in the poorest countries. They tend to be training and technical assistance, and in some cases, capital assistance that are funded from the budgets of the development assistance accounts and economic support fund accounts, but not with the money that we are requesting from this committee today.

Ms. MCKINNEY. Do you think that is sufficient development assistance in those poorest countries if we are giving the money to the countries that can really afford it?

Mr. KIMM. Well, within AID, I would be an advocate for there being more of the development assistance funds going to housing than going to other sectors, but when I come here as a career AID employee, it is necessary for me to defend the budget that was submitted.

Ms. MCKINNEY. Too direct.

Ms. Frame, you talked about some of the projects with respect to agriculture. Could you tell me some of them?

Ms. FRAME. Well, I can give you an example of one we did in Africa. It was the rehabilitation of a sugar refinery in Kenya, and we helped a small firm from Louisiana by funding a feasibility study on this rehabilitation project, and that project moved forward. The small firm that did the study went forward and managed the project, and that has been quite a success story, because as a result of that, there have been—I think it is about $20 million of exports that have gone from the United States to that project, and of course, this was an important industrial project in Kenya.

Mr. ROTH. Madam Chairman, would you yield for just a short question?

Ms. MCKINNEY. Sure.

Mr. ROTH. Mr. Kimm, I am just curious. The question was how you target these housing loans. Who are you asking for for money this year in the 1994 appropriations?

Mr. KIMM. For which countries?

Mr. ROTH. Yes, which countries.

Mr. KIMM. It is for all of the countries in Central America through the Central American Bank. The Czech Republic, Hungary, India, Indonesia, Morocco, South Africa, Sri Lanka, Tunisia and Zimbabwe.

Ms. MCKINNEY. What populations in South Africa?

Mr. KIMM. Under the provisions of the comprehensive Anti-Apartheid Act, we only work outside the government, we can't do anything with the government. The beneficiaries of the program would be universally poor blacks.

Mr. ROTH. Madam Chairman, there has to be a follow-up question.

You had mentioned before that you are giving these monies to countries who won't be hurt by defaults, in other words, countries who have a good deal, you know, that did back it up.

Sri Lanka, is that a rich country?

Mr. KIMM. Sri Lanka is a country with a low per capita income, but their creditworthiness is rated by a government committee, they are within the spectrum of the countries to whom we would make a loan.

Mr. ROTH. OK. Thank you.

Ms. McKinney. Ms. Frame, if your agency had to to—could provide guarantees as well as grants, you talked about some reorganization, in addition, of staff. Would you necessarily have to add staff?

Ms. Frame. Well, currently our staff has 38 people. They are excellent people. They are wonderful staff; I am very proud of them. But if we were to get expanded authority, I think we would probably need some additional people with other technical skills than what we now have.

Ms. McKinney. And how many people are you talking about?

Ms. Frame. Well, I guess I would be hesitant to put forward a figure without knowing more about what this would entail.

Ms. McKinney. OK. If you had $200 to $300 million for pilot capital projects, how would you spend that money?

Ms. Frame. If Congress were to give us capital projects?

Ms. McKinney. Yes.

Ms. Frame. Money to fund capital projects?

Ms. McKinney. Yes, guarantees and grant authority.

Ms. Frame. Well, I think the first thing we would do is talk with you, with the private sector, and with our fellow agencies, to figure out what would be the best way to operate such a program.

As you know now, Ms. McKinney, we currently work with capital projects. We are at the very early stages of capital projects. So it is not an unfamiliar area for us. In the last couple of years, we have implemented what we call the Project Life Cycle approach to capital projects. What that means essentially is that once a feasibility study is completed, we continue to monitor the project; and if it seems appropriate to put in a little more assistance, for example, to do a business briefing or to make U.S. companies aware of the project, we will do that in order to move that project forward to financing and implementation. So we are familiar with the financing issues of capital projects.

So I think it would not be much of a change in terms of philosophy. If we were given a larger authority, we wouldn't necessarily change our approach, and presumably we would try to use those things that now work for us in financing feasibility studies—leveraging money and that kind of thing.

Ms. McKinney. Could you just give me an example of some projects that you have in Israel and in the Caribbean?

Ms. Frame. We currently don't have any projects in Israel, and that is in large part because the amount of foreign assistance the U.S. Government gives to Israel is so large that we have determined that it makes more sense for us to use TDA's more limited resources in other countries.

The other one was?

Ms. McKinney. The Caribbean.

Ms. Frame. The Caribbean. Our program in the Caribbean in the last few years has not been very large either. We have done a couple of airport projects; for example, we did a feasibility study on an airport project in Trinidad, and that was a successful project for a small company in Florida, who was a subcontractor in the feasibility study, but got the contract to manage the construction of the airport.

Ms. McKinney. OK. And Ms. Chalmers, what projects do you or activities do you have in the Caribbean and in Africa?

Ms. Chalmers. We have, as I think I mentioned—to start with Africa first—this year, or in fiscal year 1992, we did 22 projects; and I would be happy to provide a list of those. I am afraid I can't reel them off for you.

[The information appears in the appendix.]

We also have had, since I believe 1989, one of our private sector OPIC-supported growth funds which provides equity capital for projects in sub-Saharan Africa, in the countries which are eligible for OPIC programs, and that has been an additional source of capital for U.S. projects in that country.

You also asked about the Caribbean?

Ms. McKinney. Yes.

Ms. Chalmers. Again, we have done a number of projects in the Caribbean. It has been actually one of our most active areas at various times; and I would be happy to provide additional information for the record.

Ms. McKinney. OK. Thank you.

[The information appears in the appendix.]

Does the administration support the rewrite of OPIC's authorities?

Ms. Chalmers. Are you referring to 4996, the House version that was passed last year?

Ms. McKinney. Yes.

Ms. Chalmers. At this point, I can't speak for the position of the administration with respect to that bill. As you know, and as several people have mentioned, there is an ongoing effort to review the entire foreign assistance program, including OPIC's program; and we believe that H.R. 4996 is a very useful point of reference with respect to OPIC's programs, and anticipate that it will be part of the discussion as we move forward.

Ms. McKinney. One last question. Who is the new manager for the Israel growth fund?

Ms. Chalmers. I don't think I have the name of the new manager for that fund, but I will be happy to provide it to you.

Ms. McKinney. But there is a new manager?

Ms. Chalmers. I believe that there has been chosen a new manager for that fund. It is scheduled to go to our board of directors in the next month or so, and we expect to be moving forward very quickly with it in order to allow it to go to market before the summer.

Ms. McKinney. Dr. Saiers, two final questions. One, should AID assistance be tied to human rights?

Mr. Saiers. Ms. McKinney, I think that there are massive violations of human rights and smaller violations of human rights, but I think the right answer is, in almost every situation, when you have a situation where human rights are being violated, the environment for economic growth, for development, is not going to be particularly good, because human rights violations are going to be associated with all sorts of other political difficulties, as well. And I think one of the tenets of this administration is going to be putting its resources in those countries where the expected return is much higher, and not to put resources in those countries where

human rights violations will really hinder the possibilities of genuine improvement in the lives of the people of those countries.

So I think it is going to have to be looked at on a case-by-case basis, but I think that is going to be one of the major factors in determining both the level of assistance and whether or not there is assistance in these countries in terms of human rights performance.

Ms. McKinney. That means generally yes.

Mr. Saiers. Generally, yes.

Ms. McKinney. And then finally, can AID currently provide loans and loan guarantees for microenterprise lending, or simply grants?

Mr. Saiers. Right now, the authority, I think, is only for grants. In fiscal 1993, the only guarantee authorities are for the housing guarantee program. The private sector investment program, and the private sector investment program grants are probably at a higher level, an average of a little over $2,500 per person. They are higher than the microenterprise grants normally are, so this year there is no authority.

Ms. McKinney. Thank you. Thank all four of you panel members.

We will proceed now to panel number four, William Trammel, vice president, project finance, Fluor Daniel; John Hardy, director, corporate development and finance, Brown & Root; Lawrence Yanovitch, Microenterprise Coalition. We are going to strictly adhere to the 5-minute rule without cheating.

Ms. McKinney. We will begin with Mr. Yanovitch.

STATEMENT OF LAWRENCE YANOVITCH, MICROENTERPRISE COALITION

Mr. Yanovitch. Madam Chairman, Mr. Roth, we are grateful for the invitation you extended to the microenterprise coalition to testify today, and for the strong support you have given to microenterprise over the years. I am the Director of Government Programs for FINCA. I am also the Co-chair of the Microenterprise Coalition, which is comprised of 23 private voluntary organizations or PVO's.

In a recent letter to President Clinton, the Coalition outlined an agenda for creating a Microenterprise Development Fund within the foreign assistance program. For the record, I would like to submit a copy of the letter to the President which includes a list of the Coalition members.

[The information appears in the appendix.]

Ms. McKinney. Without objection.

Mr. Yanovitch. The purpose of the Microenterprise Development Fund would be to catalyze the growth of sustainable financial and technical support institutions which serve the self-employed poor in the developing world. These institutions would help to democratize the financial sectors in recipient countries, opening them to millions of new savers and entrepreneurs. Resources from the Fund would be leveraged with resources from the U.S. private sector, other donor nations and local communities.

For every $100 disbursed from the Fund, recipient institutions could generate an average of more than $500 in loans.

In my testimony today, I will first provide a rationale for a major U.S. initiative in microenterprise. I will then review the current AID program. I will conclude with recommendations for how the Microenterprise Fund might function.

Microenterprise is a cost-effective approach to foreign assistance which advances both the humanitarian and the economic interests of the United States. There is no greater threat to global security and prosperity than the explosive growth of poverty in the world today. The global population is expected to double in the next 45 years. If corrective measures are not taken, more than 90 percent of these people will be born into poor families in the developing world.

The poor in the developing world face a daunting array of obstacles to breaking out of poverty. The vast majority does not have access to stable employment in the industrial sector and must therefore turn to self-employment in the informal sector, or as it is called the "survival economy."

Yet, the self-employed poor do not compete on a level playing field. In the developing world, larger private and state industries dominate the access to markets, raw materials and capital.

One of the most salient problems microenterprises face is a lack of access to capital at commercial rates. Microenterprises must turn to informal credit sources or "moneylenders." The street vendor in Managua, Nairobi or New Delhi will typically pay up to 10 percent interest a day on a loan from a money lender.

U.S. PVO's, credit unions and local NGO's have taken the lead in filling the vacuum left by the banking sector. These organizations have created specialized lending institutions tailored to the needs of the poor. The repayment rates are very high, ranging from 95 to 99 percent. The programs have often succeeded in substantially increasing the income of their borrowers, enabling them to improve the quality of life of their families. In one AID poverty lending program in El Salvador, 90 percent of surveyed borrowers doubled their weekly food purchases after 1 year of program participation.

Since microenterprise programs are based on productive investment instead of charity, the resources are recycled to assist more and more poor families. In the El Salvador program the $1.3 million portfolio will rotate in 5 years to generate at least $18 million in loans.

I would like to now turn our attention to the current microenterprise program of AID. Since AID has been focused during the last 12 years on large-scale private sector development, it has not placed a priority on microenterprise. During this period, microenterprise institutions had difficulty in accessing funding from AID missions.

The centrally managed program of AID's Office of Voluntary Cooperation has, however, proven to be an effective alternative to developing the microenterprise capacity of PVO's. This program could serve as a model for the proposed Microenterprise Development Fund.

At this point I will summarize the Coalition's recommendations for how such a fund could function. The purpose of the Microenterprise Development Fund would be to promote a network

of financial and technical assistance institutions which serve the self-employed poor. After 3 to 5 years of AID assistance, these institutions should be self-financing through interest income.

The Fund would be centrally managed and be comprised of three components: institutional development, capital, and research and evaluation.

The capital component of the Fund would be equally divided in two parts. The first part would be allocated to poverty lending or those microenterprise programs which target the severely poor. Since small loan sizes are a good indicator that programs are reaching the severely poor, capital drawn from this part would be dedicated to programs where initial loans are no more than $150 and no loan exceeds $300.

The second part would be dedicated to all other types of microenterprise programs.

This distribution of capital would reflect the two-tier structure of fiscal year 1993 legislation for microenterprise.

Based on a survey of the programming capacity of its members, the Coalition would recommend that an annual average of $130 million be appropriated to the Fund over the next 4 years for U.S. PVO's and credit unions. This would allow these organizations to generate over $1 billion in microenterprise loans in the developing world.

The $130 million annual appropriation which we are requesting is 20 percent less than AID's total projected expenditures in microenterprise for fiscal year 1993. The appropriation would need to be augmented, however, if AID mission activities were also to be financed through the Fund.

In short, these are the recommendations of the Coalition for the Fund. My written testimony provides more operational details.

In closing, we would like to leave these final thoughts. The cold war may be over, but the achievement of true peace has hardly begun. There can never be lasting security in the world if large portions of the population are marginalized from participating in the development of the global economy. Microenterprise offers the new administration and Congress a proven tool which you can use in the U.S. foreign assistance program to stimulate the growth of prosperity and pluralism in the world.

Thank you.

Ms. McKinney. Thank you. Mr. Trammell.

[The prepared statement of Mr. Yanovitch appears in the appendix.]

STATEMENT OF WILLIAM D. TRAMMELL, VICE PRESIDENT, PROJECT FINANCE, FLUOR DANIEL

Mr. Trammell. Thank you, Madam Chair. I am not as articulate as my companions here, so I am going to kind of skip my written testimony and ask you to put it in the record.

Ms. McKinney. Without objection.

Mr. Trammell. I am going to use what little bit of time I have here for something, first, that I had not anticipated; and I am very sorry that Mr. Rohrabacher isn't still here. But I would like to call your attention to a document that accompanies my testimony, which is put out by the National Association of Manufacturers, that

actually tracks what happens to these TDA grants, how they generate money and how that money flows down, not to the profit of one big company, but to jobs all over the United States.

The case that Ms. Frame referred to, the sugar refinery case, is on page 16 or thereabouts in this book. It shows you how a small grant to TDA resulted in $23 million in initial exports that cascaded down to 518 jobs in a whole bunch of States, the largest of which was Louisiana with 311 jobs. Now, those weren't gross profits through a large company; it is a small company of only 36 people. But because it hired many suppliers and other providers of services, it spread a lot of money to a lot of needy hands.

Forgive me for that digression, but I thought it worth mentioning.

I would like to give you a little homily and a little analogy which might put some of my concern and Mr. Roth's concerns into perspective. I am a sailor. When I am not working, that is my avocation. The one thing I learned being a sailor is that when things are going very nicely and the sea is calm, you can have both hands for the boat. But when the seas get rough and dangerous, a good sailor will keep one hand for the boat and one hand for himself.

Let me put that into context for you. Let's say the sea is our economy and the boat is our foreign assistance program. We should use one hand, for the traditional programs of AID, what we heard as the bottom up, what is best in the long run, what is over the horizon and is going to be wonderful. But use the other hand for the capital projects program, something that will pay us back and protect us in these times of choppy seas and so forth.

So perhaps that is a little homily, but it is something that helps me kind of focus on what I am talking about here.

The other thing I would like to take my time and yours for is to give you an example of what we are talking about in capital projects. A couple of years ago, the Government of Lithuania, the first country to split away from the Soviet Union, came to this country and came to TDA and said please, we have a problem. We have a refinery, but we can't get any oil from Russia. They don't like us anymore. They shut our oil off. And we can't heat our homes, we can't have hot water. Help us find a way to get oil into our country.

TDA gave them a grant of $210,000. My company was the recipient of that grant. We were able to define a $300 million project, which would build an oil terminal and link it to that existing refinery with a pipeline.

If we had a capital projects program, we could leverage some money from the United States to make that oil and that pipeline happen and generate more volume in exports than we would need from a capital projects program funding.

I can't give you exact numbers. I think it would be silly to try to do that, but I can tell you general numbers. For, let's guess, $20 or $30 million, we might be able to generate exports over $100 million; and we wouldn't have another winter like the Lithuanians went through last winter when they had no heat in their homes, they had no hot water, and it was a pretty miserable place. Another winter like that, we are going to have a change in that government.

So please, think about that, maybe, when we get to questions and answers; and let's try to use it as a talking model for what we are trying to do here. I would like to concede any of my time, which I just ran out of anyway, to my fellow panelists.

Ms. McKINNEY. Thank you very much. Mr. Hardy.

[The prepared statement of Mr. Trammell appears in the appendix.]

STATEMENT OF JOHN HARDY, JR., DIRECTOR, CORPORATE DEVELOPMENT AND FINANCE, BROWN & ROOT, INC.

Mr. HARDY. Thank you, Madam Chair. I have a statement that I would like to submit for the record.

I am here today on behalf of CEE, the Coalition for Employment through Exports. The Coalition recognizes the efforts of this subcommittee through the Jobs for Exports Act of 1992. We commend you for your foresight and your persistence in its enactment.

The Coalition appreciates this opportunity to appear before the subcommittee to discuss reforms of the U.S. foreign economic assistance program. The U.S. foreign aid program over the last several decades has been driven by two principal considerations: humanitarian concerns on the one hand and security concerns on the other. What has been entirely lacking is a third consideration, that U.S. economic and commercial interests have a legitimate role in the shaping of our foreign aid program.

Our economic assistance program has been designed and implemented as if U.S. economic and commercial considerations have no place in the development process. This premise is misguided. First, we must recognize that the real American contribution to development lies not in our economic assistance dollars, but rather in the strength of the American market. A strong and vibrant U.S. economy generates increased markets for developing country exports. Our AID program does not reflect this reality, that we must keep our economy strong to maximize our country's contribution to development.

Secondly, there is no need to structure our aid program so as to ignore U.S. commercial interests. No other major aid program in the world pursues developmental objectives without also ensuring commercial benefits returned to their economy. The consequence of this unbalanced approach to aid is a gap in our programs: the lack of any U.S. program or fund to support the development of major infrastructure or capital projects throughout the developing world.

At the end of my statement as an attachment to it, there is a schematic of the programs in the economic assistance and export financing area of our export competitors, and the corresponding programs existing in the U.S. Government. That schematic makes obvious the gap in our programs.

How can we address the structural imbalance? By establishing a capital projects or infrastructure fund of significant size that will balance sound developmental objectives and simultaneously promote high value-added jobs in the United States?

As a country, we would benefit from such a fund for several reasons:

First, it would address sound development objectives not addressed in the present economic assistance program. Adequate

power, telecommunications systems, transportation systems, water supply and sewage systems and the like are all in critical need in the developing world. The absence of basic physical infrastructure is constraining the capability of these countries to grow, yet AID has consistently sought to minimize the level of its funding going to infrastructure projects. In 1992, only 6.6 percent of AID's budget was devoted to this purpose. In contrast, in 1991, Japan and Italy spent over 55 percent of their AID programs in the capital projects area.

The second reason for establishing an infrastructure fund is that it lies in the national interest—first, by promoting the growth of strong trading relationships between ourselves and developing countries; and secondly, by promoting and supporting commercial and economic benefit to the United States.

As to promoting the growth of strong trading relationships, we need to recognize that the developing countries which are most acutely in need of a modern physical infrastructure are those middle-income developing countries which are of important commercial and strategic interest to the United States. Yet under the present economic assistance program, we graduate these countries just as their economies are taking off. No other aid program does this.

An infrastructure fund would expand our trading relationships as our economic relations move to one of greater reciprocal benefit.

The other way an infrastructure fund would be in the national interest is by supporting critical, high-value U.S. jobs. Every other major aid programs, supports its national economic interests by assisting its firms to capture these important infrastructure projects. Power, telecommunications, transportation systems and water projects, these are the sectors that provide nonmilitary technological leadership to our economy. Fifteen years ago we dominated these markets internationally, but because of the lack of a level playing field, we have seen our position eroded to the extent that there are now major infrastructure markets in the developing world without any significant U.S. commercial presence.

The lack of a level playing field has had devastating consequences. Our foreign competitors have been able to draw upon the support of their governments using their aid programs to offer significantly lower prices for major projects than have American firms. Since our firms have not had access to comparable programs of concessional or very low-cost financing, American firms have been severely disadvantaged. An infrastructure fund of significant size would help to redress this imbalance.

The Coalition believes that it is time for a new approach, away from AID, and strongly urges Congress to provide infrastructure funding through a second window in the Trade and Development Agency, which already has a dual mandate of supporting development and promoting American exports.

A second window at TDA would fund equipment purchases and project implementation. The Coalition recognizes that this would be a significant enlargement of TDA's mandate. We believe that the Agency has been well managed and has proven itself. We recognize further that staffing in TDA would have to be increased, but believe that TDA can undertake this increased responsibility without losing its responsiveness and flexibility.

CEE proposes a total budget for TDA for both windows of $1 billion, building on the figures for capital projects and your "Jobs through Exports Act." For purposes of illustration, the billion-dollar level might be allocated as follows: $150 million for feasibility studies, $150 million for engineering design services, and $700 million for capital projects. It should not be the practice of this fund, as has been traditional in AID, to finance a project entirely from U.S. assistance funds. Rather, TDA should leverage the Fund for developmentally sound projects to maximize their benefit for U.S. exports. Moreover, the program needs to be demand-driven, like the existing TDA program.

Madam Chair, you are to be congratulated on undertaking this effort to consider reforms to the U.S. Foreign Aid Program. Reallocation of resources to allow for increased infrastructure funding will be a major step toward assisting U.S. workers and high value-added jobs in the United States as we assist our new trading partners to develop. On behalf of CEE, thank you.

Ms. McKinney. Thank you.

Mr. Yanovitch, could you tell me why the $300 level is important in granting the microenterprise loans?

Mr. Yanovitch. Yes. If you look at microenterprise programs throughout the world, you will see that those programs that have very small average loan sizes are generally reaching the severely poor, particularly women, and so we believe that it is very important from the Coalition's perspective that a large portion of the funding go to the severely poor.

Ms. McKinney. And what is AID's position?

Mr. Yanovitch. Well, that is difficult to say today. Over the last 4 years, there has been considerable debate with AID, which came to the fore in hearings held by this committee. In fact, there was a debate among the PVO community itself. So one of the purposes of the Microenterprise Coalition was to provide a forum to resolve those differences. The Coalition members strongly believe that we can meet the requirements of the $300 loan cap and we can report on them.

Ms. McKinney. Why does the Coalition prefer to operate through AID's PVC Bureau?

Mr. Yanovitch. The Coalition is not recommending that this program operate through the PVC Bureau. We are asking, however, after the reorganization of AID, that wherever the Fund is ultimately managed, that it be managed in an office that has strong linkages with the PVO community.

Ms. McKinney. OK. And AID has suggested that instead of a $300 loan cap for loans to the poorest that a formula based on GDP per country would be a more accurate determiner of the poverty rate in each country.

Mr. Yanovitch. We disagree with that.

Ms. McKinney. You disagree.

Mr. Yanovitch. Because we have spent, again, 5 years debating this issue, and the PVO community really wants to go beyond this issue. We can, again, report on the $300 loan cap. AID has also developed an information system based on these indicators that we going all employing, so we would prefer to keep the indicators at that.

Ms. McKinney. Thank you.

I guess I will let Mr. Roth go.

Mr. Roth. Well, Madam Chairman, let me just follow up with Mr. Yanovitch. He is our country's expert on microenterprises. How much did Congress appropriate to microenterprises last year?

Mr. Yanovitch. $70 million.

Mr. Roth. $70 million?

Mr. Yanovitch. Yes.

Mr. Roth. I thought it was $85 million, but OK, $70 million. How much are you asking for this year?

Mr. Yanovitch. $130 million, which represents 80 percent of AID's projected microenterprise expenditures for fiscal year 1993.

Mr. Roth. $130 million. Of the $70 million, how much of that was loaned last year? How much of that $70 million did you use?

Mr. Yanovitch. In fiscal year 1991, AID spent a total of $120 million on microenterprise.

Mr. Roth. I was wondering of the $70 million that was appropriated, how much of that did you use?

Mr. Yanovitch. $41 million went in loans.

Mr. Roth. $41 million. What happened to the other $39 million?

Mr. Yanovitch. The rest went into technical assistance, institutional development and policy reform.

Mr. Roth. Translated, what does that mean? I mean you have committees set up and you pay these people to tell you how to reform the system?

Mr. Yanovitch. Well, I am not an AID representative, of course, but my understanding of the AID program is that in addition to loans, it also provides assistance in organizational development, because in order to be able to program the loans effectively, you have to have effective institutions. So a large portion of the funding does go toward institutional development.

Mr. Roth. So what we call it, overhead, so you have $39 million in overhead; is that right, or $41 million that is loaned out?

Mr. Yanovitch. Well, if you look at most microenterprise institutions, they should be able to self-finance their operating costs within 3 to 5 years. So there is an upfront subsidy that is necessary for institutions to reach financial sustainability. Again, I cannot speak for AID on its budget.

Mr. Roth. If I were to ask a question like what were administrative costs, what would you say, on $39 million? I am trying to figure out where this money is going to.

Mr. Yanovitch. The institutional development component was 24 percent of AID's budget for microenterprise.

Mr. Roth. Well, it seems like nobody has got a budget in this foreign aid program. You ask people, you know, where is the money going and how much money do you have on hand and nobody seems to know. I would say you have $39 million administrative costs. Would that be fair?

Mr. Yanovitch. Well, one of the reasons we want this fund to be centrally managed, is because we think it will improve the efficiency of AID's program. But I am not an AID representative, so I cannot testify specifically on its budget.

Mr. Roth. When was the last time this microenterprise program was audited?

Mr. YANOVITCH. Well, I, again, am not an AID official, so I can't say when the program was audited. I think AID has ongoing audits of its microenterprise programs in the field.

Mr. ROTH. Ongoing audits. What is the default rate?

Mr. YANOVITCH. The default rate for FINCA, which is the organization I represent, has a repayment rate of 95 percent.

Mr. ROTH. Five percent default?

Mr. YANOVITCH. Five percent.

Mr. ROTH. That is impossible. You know why I can say that is impossible? Because if you are going around giving out this money to people with no real accountability, nobody knows what is going on, and you only have a 5 percent default rate? Oh, come on, that is totally impossible.

Mr. YANOVITCH. Mr. Roth, I can give you statistics from last month on FINCA's entire loan portfolio, if you like.

Mr. ROTH. Those statistics would be wrong. I could categorically say I would bet my life on it that 5 percent is total nonsense.

Mr. YANOVITCH. I beg to disagree with you, Mr. Roth, because we are extending loans to very poor people—poor people, unlike larger enterprises, are much more concerned about repaying their loans. Secondly, we——

Mr. ROTH. That is ludicrous.

Mr. YANOVITCH. Well, you may find it to be ludicrous, Mr. Roth, but the fact of the matter is that what we provide loans to poor communities who then collectively guarantee the loans, and for that reason, there is a sense of solidarity which assures repayment.

Ms. MCKINNEY. Mr. Yanovitch, may I ask that you would provide that information for the record?

Mr. YANOVITCH. I would be most delighted.

Ms. MCKINNEY. Thank you.

Mr. ROTH. Well, I thank you, Madam Chairman. I am going to have to talk to bankers when they come before our committee, because if you loan money to very poor people, people who can't pay, they are going to have a 95 percent repayment. I mean this is impossible.

Ms. MCKINNEY. Mr. Roth, I would just say that in my district from Georgia, which is Georgia's second poorest district, the problem is that the attitude is that people think that poor people won't repay, but poor people do have a sense of consciousness about their creditworthiness.

Mr. ROTH. I think all people have a sense of consciousness, but to say you are going to have a 95 percent return on these loans, that is impossible.

Mr. YANOVITCH. I would invite you to visit our programs, Mr. Roth, and verify for yourself, please.

Mr. ROTH. By golly, I am going to do that, and I will do that.

Mr. YANOVITCH. Please do.

Mr. ROTH. That is unbelievable.

Ms. MCKINNEY. We might have just helped the banking industry in America.

Mr. ROTH. Well, if we don't do a better job in view of foreign aid, we won't have a banking industry or foreign aid.

Ms. McKinney. Mr. Hardy, I am going to ask you just one question. Which agency do you believe should manage capital projects, AID or TDA?

Mr. Hardy. Madam Chair, it is our position that the Trade and Development Agency is far more appropriate than AID to manage a program like that. The experience—my personal experience in AID, as well as, I think, the business communities' collective experience with AID, is that there is not a great deal of receptivity to a program like this in AID, nor a great deal of interest, and that they are not really prepared to work with the business community to make a program like this succeed; whereas I believe that TDA has shown that it can do it and is prepared to work with the business community to make it succeed.

Ms. McKinney. All right. Do you have any questions? Any more questions?

Mr. Roth. I would just have one question. Both of you had mentioned that you are interested in supporting capital projects?

Mr. Trammell. Yes, sir.

Mr. Roth. Would you tie those capital projects to American businesses and so on?

Mr. Trammell. Absolutely.

Mr. Roth. You would? Would you use the same philosophy for all of our foreign aid, in other words tie into——

Mr. Trammell. No, sir.

Mr. Roth. Just for capital projects.

Mr. Trammell. Again, Mr. Hardy has probably already thought of a better answer than I can give you, but since you ask us both, I think there needs to be in our foreign assistance program an element of humanitarian need. I think it is very difficult to satisfy that aid.

Mr. Roth. Foreign aid and humanitarian aid are two different things, you know.

Mr. Trammell. I am sorry, sir, I didn't know that. I saw it as one encompassing program and I apologize for my lack of knowledge of the details.

Mr. Roth. You are very knowledgeable. You don't have to apologize for anything. You are knowledgeable on issues.

Mr. Hardy. Mr. Roth, if I can speak to that, it seems to me that our fundamental feeling about the existing economic assistance program has been that it has been grossly insensitive to the lack of impact upon and benefit to the U.S. business community, and to our own U.S. economy, and that there have not been enough U.S. jobs generated as a consequence of our economic assistance program. I believe that we can do both. That is, that we can have a viable economic assistance program that can be both developmentally sound, can assist the developing world and at the same time can assist U.S. jobs.

Ms. McKinney. Finally, Mr. Trammel, how could TDA better leverage its resources?

Mr. Trammell. TDA does a very good job of leveraging the resources it has now, and believe me, I am on the stinging end of that sometimes. Quite often they will ask us to share the burden of a feasibility study with them, and TDA could ask that grant monies be repaid in certain instances if they chose to. It is difficult

to administer; it has not been required of them. It could be considered.

Ms. McKinney. Thank you, and thank you, Mr. Yanovitch, Mr. Hardy, and Mr. Trammell.

I will now call panel five, Glen Prickett, international program associate, Natural Resources Defense Council, and Michael Wright, senior fellow, Worldwide Life Fund.

We will begin with Mr. Wright and then Mr. Prickett, please.

STATEMENT OF MICHAEL WRIGHT, SENIOR FELLOW, WORLD WILDLIFE FUND

Mr. Wright. Thank you, Madam Chair. I am Michael Wright, Senior Fellow of the World Wildlife Fund. I appreciate the opportunity to appear here to present our views on the U.S. Government's bilateral aid program for the global environment. I would like to summarize my statement and put the full statement in the record.

Ms. McKinney. Without objection.

Mr. Wright. Thank you. As you may know, World Wildlife Fund is the largest private conservation organization operating worldwide to protect nature, while promoting sustainable human development. We have 27 affiliates around the world and about 1.25 members here in the United States.

I won't spend a great deal of time talking about the challenge facing us with the global environment; it is quite well-known. But I would like to provide a context for my statement.

The ongoing destruction of the world's biological diversity is proceeding apace. An estimated 100 acres of tropical rain forests disappears every minute and it is estimated that the species extinction rate is 400 times that of geological times. Less well-recognized is the link between the loss of biological diversity and human poverty.

World Wildlife Fund operates on the principle that conservation of natural resources and human development are fundamentally linked to human survival. In front of the gates of national parks around the world are impoverished people seeking land on which to grow crops. Surrounding forest preserves have people looking for fuel wood. Living side by side with herds of protected wildlife in Africa are impoverished people seeking protein to survive. The face of poverty in the Third World is often the face of a woman farmer seeking to eke out a living for herself and her family on an evermore impoverished landscape. Thus, if there is a central principle I would like to leave with you today it is that the government agencies, such as AID and private agencies such as World Wildlife Fund, must link natural resource management with sustainable human economic development.

We cannot do this alone and we cannot do it quickly. We must look to partnerships and we must look to endow these efforts over the long term.

We recognize that the present budgetary constraints facing the United States and other industrial nations make it unlikely that we will have significant new resources in the near term, but we believe opportunities still exist with well-planned programs to sup-

port innovative and collaborative programs to preserve biological diversity while meeting human needs.

Currently, the U.S. program under the Foreign Assistance Act and the foreign operations bill allocates approximately $650 million for environment and energy activities.

In evaluating these funds in fiscal year 1992, our best estimate is that AID exceeded this mandated figure and budgeted $660 million with an estimated $75 million going to biological diversity conservation and some $140 million going to promote energy production. However, I should point out about half of that latter figure went to one country, Egypt.

We think AID should be commended for exceeding the congressionally mandated allocations last year, but we are concerned that the pace of new project development has not kept up with the rate of projects that have completed and obligations that have been met. Without an increase in project and program development aid, expenditures for the environment could actually drop below the congressionally mandated figures. We estimate in fiscal year 1993, the figure for biological diversity conservation, for example, could drop below $50 million, down from more than $75 million allocated in fiscal year 1992.

In addition to assuring that our level of support remains at least constant, I would like to focus on two uses of those funds which we feel would make the spending of this money particularly efficient. The first is the use of AID funds to establish mechanisms to provide a sustainable funding base for host country institutions. The second is to focus attention on developing human resources, professional and otherwise, to enable nations to make wise resource management decisions and spend funds efficiently.

First, on sustainable institutions. Over the past several years, conservationists have come to realize that developing creative ways to invest resources is critical to stretch limited dollars. It is with this thought in mind that World Wildlife Fund in 1984 first proposed debt for nature swaps, the first of which was completed in 1987. In 1989, Congress authorized AID to participate in such debts for nature swaps by allowing interest income to be maintained in interest bearing accounts rather than be returned to the Treasury.

Since then, there have been a series of additional mechanisms developed to deal with this sustainable funding over the years, including the Enterprise for Americas Initiative, but World Wildlife Fund feels we cannot continue to rely on the debt mechanism to finance conservation programs. For one thing, we have to eliminate the debt problem of the Third World, which is causing enormous environmental and human distress. So we have been working to find alternative models to sustainable support programs. Two such mechanisms are conservation trust funds and foundations.

Through trusts and foundations we are able to put secure funding over the long term into developing country institutions to allow them to meet the recurring costs involved in natural resource management.

The fiscal year 1993 foreign operations appropriations bill provided AID with the authority to establish such funds, however, this

authority is temporary and should be written into the Foreign Assistance Act as reauthorization moves forward this year.

Another important aspect of the foundation or trust fund mechanism is that if sustainable development is to have reality on the ground, decisions must be in the hands of local people. The trust mechanisms allows for local boards of directors, with appropriate accountability to the U.S. Government, to make decisions together with the institutions and people of the very countries struggling with environment and poverty problems day-to-day. We feel trusts and foundations not only endow institutions, but build the human capacity to address these problems.

The second primary use of AID funds that we would like to encourage, as new funds become available and old projects wind down, is a focus on human resource capacity building, in a word, training. Traditional environmental training is sectorial and rather straightforward. Unfortunately, it is not appropriate in today's modern conservation world.

The wildlife conservationist today has to be a land manager, a biologist, he has or she has to deal with policymakers, economists, agricultural extension agents, women's groups, local people. It is terribly important that we retool the environmentalists of the world to function in a much more complicated environment. It is not just biological science any more, it is social science as well.

AID and a number of government agencies, which are laid out in my written testimony, have been providing training over the years, much of that very efficiently, but there is clearly a need to integrate and rationalize the process of training provided by U.S. Government agencies.

In addition, AID has focused very heavily on bringing people to the United States for training, sponsoring 14,000 postgraduate students from abroad under its Thomas Jefferson Fellowship program. There is much to be learned in the United States, and particularly for future decisionmakers it can be a very important initiative.

On the other hand, we believe it misses the opportunity to build local training capacity over the long-term in the developing world. In addition to the standard U.S. training, we would like to suggest four main pillars of the AID training initiative:

First, to focus on future policymakers, AID should work with universities and host countries, in collaboration with the U.S. universities where possible, to adopt programs which can meet the needs within those countries; second, to provide technical and scientific training to on-the-ground managers; third, to focus on developing the financial and technical capacity of local nongovernmental organizations; and fourth, although it is not directly related in an obvious way to environment, to focus particularly on primary education of rural women. We feel that the single most important factor in resource management, as well as dealing with population, is the issue of women's education and particularly in the rural areas.

Madam Chair, WWF believes AID should have as its fundamental focus sustainable development, but in the process of developing such a program, it needs to include sustaining funding for long-term support of institutions in the Third World and building the capacity of local people to make their own decisions for the future.

Thank you.

Ms. McKINNEY. Thank you, Mr. Wright. Mr. Prickett.

[The prepared statement of Mr. Wright appears in the appendix.]

STATEMENT OF GLENN T. PRICKETT, INTERNATIONAL PROGRAM ASSOCIATE, NATURAL RESOURCES DEFENSE COUNCIL

Mr. PRICKETT. Thank you, Madam Chair. It has been a long afternoon and our numbers have dwindled considerably. I have also given you more pages of written testimony for the record than I am sure you want to read let alone hear, so let me make two key points.

First, the state of the environment in the developing world and the former Soviet Bloc is critical to our Nation's interests. Our concern for humanity compels us to contact as billions struggling to survive and better their lives are faced with polluted air and water and degraded lands.

Our export-dependent economy relies on these nations' long-term economic health which, in turn, requires a healthy natural resource base.

Finally, our own security is threatened by the accumulation of heat-trapping greenhouse gases in the atmosphere and the rapid decline of species and ecosystems. We need the help of all nations in solving these problems.

These clear interests call for a strong bilateral assistance program focused first and foremost on sustainable development, by which I mean ending poverty and empowering people to better their own lives while protecting the environment and stabilizing population.

We need a bilateral program because we cannot depend on the multilateral banks and the U.N. agencies alone to provide the innovation, flexibility and accountability needed for sustainable development efforts.

We need a program focused primarily on sustainable development because helping countries to help themselves is the surest way to satisfy our long-term humanitarian economic and security goals. A program based solely on advancing short-run U.S. commercial interests will serve none of these long-term goals well.

Second point: AID needs vigorous leadership and a larger team of environmental professionals to make it the flagship of our bilateral environmental assistance efforts.

As the chairman requested, I have reviewed AID's current environmental program. While AID has targeted the right issues—biodiversity, tropical forests, unsound energy production and use, unsustainable agricultural practices, industrial and urban pollution, and water and coastal resources—a lack of senior level direction and a shortage of field-based expertise have produced a scattershot program.

Details are in my written record, but I will give you two representative highlights. First, 40 percent of AID's fiscal year 1991 environment funding went to one country, Egypt, largely for a handful of power and water infrastructure projects. Without senior level professional direction, foreign policy priorities will continue to skew AID's environmental effort.

Secondly, end-use energy efficiency and renewable energy are dramatically underfunded despite repeated urging from Congress over the years. Outside Eastern Europe and the former Soviet Union, very little is happening on this issue. This is a major gap that must be filled. Unsustainable energy consumption is a major cause of local environmental damage and global greenhouse gas emissions. In general, the "brown" environmental issues—energy and pollution—receive little attention relative to the "green" environmental issues—biodiversity and tropical forests—outside of Egypt.

AID will likely meets it $650 million environmental earmark this year, but I submit that quality is more important than quantity. To ensure solid projects and a balanced environmental portfolio geographically as well as substantively, AID should:

First, create a new senior level position for an environmental officer, possibly a deputy administrator or a new directorate, to impart seriously needed direction and leadership to the agency. The current lack of senior level direction has left the agency to deal with a lot of internal turf squabbling and conflicts.

Second, hire more technically trained environment and energy professionals in key positions here in Washington to oversee the program and in key missions.

Third, increase funding for energy efficiency and renewable energy and for AID's population program, and integrate these efforts more closely with AID's other environmental work.

Finally, AID should consider creating a sustainable development advisory panel of environment, poverty and population experts to review its overall portfolio and to advise on individual projects where appropriate. Among other things, this panel could help AID undertake a global review of its environmental portfolio, something that no one has done to date and that is seriously needed.

My written statement also makes recommendations on enhancing and coordinating the work of other agencies, and I would be pleased to answer questions on that.

In closing, Madam Chair, I would note the incredible challenge you and your colleagues face in prompting Congress to act on foreign assistance in the face of what many consider to be competing domestic and foreign policy needs. We have seen evidence of that challenge here today.

I would urge you to be a strong advocate for international development assistance. NRDC, World Wildlife Fund, and other groups stand ready to help you make the case that sustainable growth abroad is critical to solving our problems at home, and to creating a more peaceful, prosperous, and just world.

Thank you.

Ms. McKinney. Great; within 5 minutes.

[The prepared statement of Mr. Prickett appears in the appendix.]

I have a question for both of you. Would you support this establishment of a Rio Commission as was earlier suggested?

Mr. Prickett. Yes.

Mr. Wright. Without knowing the great nature of the proposal, I am not sure I should leap into the flame.

Ms. MCKINNEY. Congressman Porter has a bill to establish a Rio Commission that would institutionalize our concern for the environment and then also make sure that the United States abides by and lives up to the Agenda 21 items.

Mr. WRIGHT. Without seeing the details of Congressman Porter's bill it is a little hard to respond at this stage.

Ms. MCKINNEY. OK.

For Mr. Wright, you said that AID needs to recognize the improving education opportunities for women, et cetera. Is there a reticence on the part of AID to understand and then act on the important role that women play in development?

Mr. WRIGHT. I think AID over the years, with a lot of encouragement from the private sector, has been pretty good on this issue. The problem AID has with this issue like they do with almost everything else is they have 187 different priorities and women then become just another piece of the puzzle.

In some ways it is almost more of a challenge for the environmental community to realize that education of women is part of the environmental solution, as opposed to a separate sectorial issue.

I think AID is pretty good on women's issues, but it does tend to get slid off to the side as a separate special issue and it really needs to be moved back to the center, particularly in Africa, where I have tended to work.

Ms. MCKINNEY. Great.

Mr. Prickett, do you believe that AID can increase the effectiveness of its environmental projects without significantly increasing its budget?

Mr. PRICKETT. No, I would have to say I don't. As I pointed out, in the current environmental portfolio you have 40 percent in one country. Although I don't know if anyone has done a serious review of those projects, I would submit that they are probably not accounting for 40 percent of the effectiveness of AID's environmental program.

So I don't think you have to increase AID's environmental budget substantially, as I said. I think quality is a better indicator than quantity. To me, the most critical factor is staff, both at a senior level and at the working level in the fields, and that is where AID has been weak in recent years.

This is something the Congress has noted for several years, and while Congress has stopped short of earmarking the operating expenses account, there has been authority given in recent years to use program funds to hire new staff.

AID wanted to use that authority, OMB and the previous administration wouldn't let them do it. So I would submit that authority be retained this year and I would encourage AID to go back to OMB one more time and maybe they will find a more supportive climate there.

Mr. WRIGHT. May I comment on that?

Ms. MCKINNEY. Certainly.

Mr. WRIGHT. I very much share the view that AID needs to buildup staff, but in the process I would encourage them to look only at their professional staff but also toward hiring in-country nationals. One of the things that happens is AID is the tremendous staff turnover or rotation at the mission level. Often it will be the

in-country foreign national who provides the continuity over time. For example, there is a particular Zimbabwean who had been through seven different AID environmental or agriculture staff while he has been there as the constant presence. You can also build a sense in people in these countries that there is a career path in the environmental area working for AID. But you also need to have environmental professionals within the agency itself in order for the issue to have high priority. It cannot just be foreign nationals but requires some kind of a mix.

Ms. McKinney. Would either of you have a suggestion for the overall reorganization other than what you have submitted here, which is sort of bits and pieces, but for an overall reorganization of AID?

Mr. Wright. Well, there have been a series of ideas talked about, and I think we both come down in favor of AID having sustainable development as its central mission. We would both be very uncomfortable with turning AID into a sort of adjunct to the Department of Commerce. I would be concerned if it simply becomes a part of the State Department driven only by short-term political interests although it obviously has to take into consideration the U.S. position.

Sustainable development as a central organizing theme is not going to be easy. It is a messy series of bits and pieces and you can not find anybody to even tell you what it means. It would be easier to take a very simple, quantitative approach to AID but that would be a mistake which would not serve us in the long run.

That said, if you take sustainable development as the main focus, I am very inclined toward a more functional orientation of AID around a series of problems. It makes it easier for the American people to understand that we are attacking poverty problems, environmental problems, et cetera, but in the end you have to deliver assistance at a country by country level. So even within my own organization we have trouble deciding whether to organize along functional or geographic lines.

It is organizationally—it is better to be functional, but you have to deliver assistance at the country level.

We agree with what is proposed by NRDC: let's keep delivering it geographically but make sure there is a strong voice on each of these functional problems that AID has to attack.

Mr. Prickett. Yes, I would again share the sustainable development emphasis and that is in my statement, and in this debate, which is actually raging in AID now, between a functional versus a geographical organization, I share a bit of the ambivalence of Mike, but, ultimately, if you have limited resources and you have to come up with some strong environmental staffing it is going to be easier to do it in one place than in four or five.

So that may answer your question for you.

Mr. Wright. If AID has good clear leadership, the organizational structure doesn't really matter and if you don't have good leadership the form of the institution won't matter either. I mean the issue is more one of leadership than structure.

Ms. McKinney. Then finally, what ought to be the relationship between human rights and U.S. foreign assistance?

Mr. PRICKETT. Well, I guess the largest level in terms of countries that are assisted, we in the environmental community many of us have been advocates of honoring our human rights laws and restrictions, but even in those cases where we do cutoff aid to allow some aid to continue to be channeled through nongovernmental organizations for our particular interests, those that are doing good environmental work, but for other developmental activities as well, and that has typically been done in Zaire, for example.

On a more detailed level, this is an area that NRDC is interested in. Last year we did a study looking at human rights abuses of environmental advocates and the problem is quite significant. I mean running from actual threats to people's lives to more ordinary day-to-day problems of getting access to government information and having the right to speak out.

So it is an area we are interested in and it is something that AID at least in its written statements and policy pronouncements has been more and more supportive, that is giving NGO's more of a voice in decisionmaking.

Now, we have not seen a lot of that translate into action on the ground, in my experience, but it is at least going in the right direction.

Mr. WRIGHT. Certainly I think we have found that there is a link between good environmental policy and an open society. I worked for a number of years in Latin America, where initially there were few democracies to work with, but the Costa Ricans, one of the only pluralistic systems, making this link between democracy and environment. What has happened in Latin America, as democracies have returned, there has been an explosion of nongovernmental organizations; a great increase in accountability and better environmental policy.

Democracy does create some interesting issues. You have demands for land, you have demands on the natural resources from an increasing number of people, but we can live with that. The tradeoff is having governments accountable for how they allocate and manage resources and it is a fair trade.

So there is a very strong link, but I wouldn't want to see a mechanical arrangement that causes aid to be cutoff in a country where we, or AID, may be working effectively with people at the grass roots level. Those people may need aid even more in a nondemocratic system. So we need to find a way to make sure that people are not twice penalized, both by a government that is undemocratic and also not being able to get help through the private sector.

Mr. PRICKETT. If I could give you an example. Sri Lanka—and Sri Lanka has been in the news this week. There has been a horrible assassination. Congress, in recent years, has become more and more critical of the human rights abuses in Sri Lanka. Actually, now there is a solid AID project under way to strengthen the environmental element of government decisionmaking, which is being managed by long-time environmentalists from this country, who is basically a strong advocate of the nongovernmental environmental groups.

Among other things, this project is helping provide them a voice in government decisionmaking. So, at the same time you have got

major governance problems there, AID is helping to bring democracy and human rights along through its environmental work.

Ms. McKinney. OK. Well, since I don't see any any more questioners, I will say thank you very much for coming and meeting adjourned.

Mr. Wright. It has been our pleasure.

[Whereupon, at 4:50 p.m., the subcommittee was adjourned.]

MARKUP FOR FISCAL YEAR 1994 FOREIGN AID AUTHORIZATION

WEDNESDAY, MAY 12, 1993

HOUSE OF REPRESENTATIVES,
COMMITTEE ON FOREIGN AFFAIRS,
SUBCOMMITTEE ON ECONOMIC POLICY,
TRADE AND ENVIRONMENT,
Washington, DC.

The subcommittee met, pursuant to notice, at 1:33 p.m., in the Rayburn House Office Building, Washington, D.C., Hon. Sam Gejdenson (chairman of the subcommittee) presiding.

Mr. GEJDENSON. The Subcommittee on Economic Policy, Trade and Environment will come to order. This is a markup for the fiscal year 94 Foreign Aid Authorization.

The subcommittee meets today to markup our portion of the fiscal year 94 Foreign Aid Authorization, including trade, aid, international environment, and nonproliferation, particularly as it relates to export controls. On May 4th, 1993, the subcommittee held an extensive hearing on these issues at which time we heard from private and public witnesses.

Pursuant to the direction of The committee, the members have before them a series of recommendations on these three subject areas. The only exception to that is draft legislation on the Overseas Private Investment Corporation, put in this form due to the need for a total rewrite of legislation and its complexity.

Let me briefly review what we have proposed for each of these areas. I will then open it up for amendment following an opening statement by Mr. Roth, who I'm sure will be here by the time I complete mine. [Laughter.]

With respect to trade and aid, we would maintain the funding level for the Trade and Development Agency of $65 million passed last year in the Jobs Through Export Act. We would add to that $300 million in nonearmarked ESF funds to establish a pilot program for grants and loan guarantees to fund capital projects.

Pursuant to concerns expressed by Mr. Rohrabacher, we have also provided for a study on the feasibility of obtaining reimbursement from companies which have received a follow-on work as a result of a TDA grant.

As the administration requested, we would provide Housing and Urban Programs an authorization of $16.4 million to cover subsidy costs for the housing guarantee program.

I knew Mr. Roth would come here before I finished my statement.

We would also provide $8.4 million for administrative expenses, and $5 million for non-HIG technical assistance and infrastructure projects.

Pursuant to concerns raised by Mr. Roth, who's just arrived, we provide for this office to consider raising its fees to the lender to offset claims.

We would also establish a Microenterprise Development Fund to promote sustainable financial and technical assistance institutions which serve the poor in the developing world. The resources of the fund shall be leveraged with those in the public and private sector.

The fund would be capitalized at $130 million and have three components: institutional development, credit, and research evaluation. Capital made available through grants would require a matching component from the recipient.

Pursuant to the administration's request our longstanding concern, we would eliminate the Private Sector Investment Program and preclude new lending or guarantees for fiscal year 94. This program would also be precluded from renewing guarantee authority on prior commitments.

Regarding aid and the environment, consistent with the administration's request for funding the AID environment and energy activities would be increased by $25 million to a total of $675 million. AID would be permanently authorized to initiate conservation trust funds in developing countries to provide sustainable sources of funding for conservation activities. Also, AID would be required to report to the committee within 2 years on its incorporation into AID activities of the principles of the Agenda 21 plan issued at the 1992 Earth Summit in Rio de Janeiro.

With respect to the $50 million request by the administration for a Nonproliferation and Disarmament Fund, and consistent with this request, no less than $8.1 million should be authorized for export control related activities. These funds would be used primarily for export controls training to be conducted by the U.S. Government.

The Staff Director will please read the policy recommendations.

Staff DIRECTOR. The policy recommendations for—in fiscal year 1994——

Mr. GEJDENSON. Without objections, the document will be considered as read.

Are there any amendments, opening statements or other comments by my colleagues?

Mr. Roth.

Mr. ROTH. Thank you, Mr. Chairman. Mr. Chairman, I'd like to associate myself with your remarks, especially in those places where you have mentioned that the concerns of your ranking member are taken into full consideration. I want you to know we appreciate that and we appreciate you giving all the members, especially on our side, you know, a fair hearing on the amendments.

This is a new initiative——

Mr. GEJDENSON. Did I say I was going to give you a fair hearing? [Laughter.]

Mr. ROTH. Well, I was working under—maybe I interpreted your remarks too loosely, but I thought you had mentioned you were going to give us a fair hearing.

Mr. Chairman, this is a new initiative, maybe a new paradigm in congressional markups. So, I think that as we move through the process I'm sure that it'll work itself out for the best; at least those are my hopes.

Mr. GEJDENSON. Mine too. Other comments, opening statements, amendments?

Mr. ROTH. Well, I have amendments. Opening statements.

Mr. GEJDENSON. Opening statements?

[No response.]

Amendments?

Mr. BEREUTER. Mr. Chairman, amendments to what, the overall proposal?

Mr. GEJDENSON. Yes.

Mr. BEREUTER. I have a question——

Mr. GEJDENSON. Go right ahead.

Mr. BEREUTER [continuing]. Which I'd like to pursue.

I understand that there is discussion about a U.S. role in environmental conservation trust funds, and I am interested to know whether or not this relates to the technical assistance to establish such or it also includes capitalization.

I have strong feelings that is should not include capitalization, which I'd go into. But if it does not include capitalization I won't need to pursue it. Can you enlighten me on that respect?

Mr. GEJDENSON. The United States would make funds available. They would be shared with other donor funds, and that would be an endowment that would then be used to fund the activities.

Mr. BEREUTER. I don't think at least this member has been involved in any hearings or discussions about that concept, and I think it would be quite a dramatic step for us to begin to capitalize environmental conservation funds. Be—are we——

Mr. GEJDENSON. We actually had a couple of hearings that dealt with the general issues, but not necessarily all the specifics. We had, I believe, on two occasions approved some of these concepts.

Mr. BEREUTER. If that's the case then I was not involved or not here it seems to me. At least that's my recollection.

I think when we begin to capitalize funds, first of all, there's a question about whether this is a proper use of very limited resources. And I think that's a more important question each passing minute.

Secondly, I think that the United States, then, has a responsibility to assure that the funds in those conservation funds are spent well. I think it's quite a positive initiative to encourage the creation of such conservation funds. I'm very much in favor of that. We've tried to do things that have the same objectives through a variety of debt for nature swaps. And, in fact, those funds in such conservation funds could be used for the same purposes.

But if we begin to capitalize these funds with U.S. taxpayer's funds, we have the responsibility to assure that those funds are spent well thereafter. And that is a very, very major oversight rule that I do not think we are well-prepared to take on.

Mr. GEJDENSON. Maybe I can make a suggestion to the Gentlemen that is twofold. One is that the process this year is going to work somewhat differently than in the past in that the committees are going to make recommendations of a sort. Then, the chairman

and the ranking member will meet in a somewhat advisory capacity with the full committee chair. Following that we will work on a full markup bill before the committee. Is that correct?

Mr. BEREUTER. That's the understanding that I've been working under.

Mr. GEJDENSON. Yes.

Mr. BEREUTER. And I just wanted to alert the chairman that I think this is a very major policy issue——

Mr. GEJDENSON. Yes.

Mr. BEREUTER [continuing]. That, if necessary, will have to be taken to the floor and opposed by this member and many other members. We should not be in the business of capitalizing conservation funds for other——

Mr. GEJDENSON. What I might suggest is that we might want to sit down with the Gentleman between now and the full committee markup and see if we can deal with some of the Gentleman's concerns and maybe look at other approaches.

Mr. BEREUTER. I very much appreciate that, Mr. Chairman. I'm happy to do that, and I welcome that opportunity.

Mr. GEJDENSON. If it works, it works. If it doesn't, you always have the amendment process.

Mr. BEREUTER. I do think we have a very basic——

Mr. GEJDENSON. Disagreement.

Mr. BEREUTER [continuing]. Issue here. Not a disagreement, but a basic issue. And it would be, I think a step—it would be an initial precedent setting step.

Mr. ROTH. Will the Gentleman yield?

Mr. BEREUTER. I'd be pleased to yield.

Mr. ROTH. Your major disagreement with this conservation trust fund is basically that you're interested in protecting U.S. taxpayer's funds in these trust accounts. Is that basically your concern, protecting the taxpayer's money here?

Mr. BEREUTER [continuing]. Actually would have that requirement. I don't want to be faced with that dilemma. I don't want to put U.S. taxpayer's funds in them in the first place.

Mr. GEJDENSON. Can I respond to the Gentleman: in the Enterprise for the Americas Initiative we had basically the same situation, except for what we did is debt for nature swaps to set up. Do you think this is that much different? It's still the same resources basically.

Mr. BEREUTER. Those are resources that did not come back to the Treasury; that is certainly true. And in some cases, of course, the debt is not—non-governmental. But, indeed, we were forgiving or encouraging forgiveness of U.S. Government funds. But I think for all times in the future, once we establish a fund, we have an oversight responsibility.

Mr. GEJDENSON. I would like to point out something very interesting. In Massachusetts the public control authority that deals with utilities is now looking at bidding new utility projects based on overall environmental impact. For instance, they're ready to accept a coal plant that may be 98 percent as clean if they buy forests to then make up the difference.

I think that as we look at attaining various air quality standards, et cetera, we will realize that these things, obviously, have a

benefit beyond simply the countries that we're providing assistance to. We all benefit from the medicines that are found in the tropical rain forest, from the environmental impact. So, I think there is, obviously, significant interest to do this.

Mr. BEREUTER. Mr. Chairman, that we also—one more point if you could—please yield to the ranking member. I do think that to—while some of these trust funds can be expected to be spent for national purposes in those countries, we are, therefore, beginning to assert ourself into the selection of priorities under that conservation trust funds. And I think that is not a role which the United States ought to stand.

I think it will lead people in those countries to think that we are involving ourself in matters that should relate only to their sovereign decisions.

Mr. ROTH. I think the Gentleman from Nebraska makes a good point. I would say this in all due deference to Massachusetts; that if we're going to use Massachusetts now as our role model—I mean, have we come to that? [Laughter.]

Mr. GEJDENSON. Could be worse; we could use Wisconsin, sir.

Mr. ROTH. Well, Wisconsin—it's one of the leading environmental states in the country.

I think the Gentleman from Nebraska makes a fine point. And I—what I hear the chairman saying is that we're going to talk to the Gentleman about this, because I have the same concerns, between now and when the legislation comes back to us and see if we can work something out. Is that correct?

Mr. GEJDENSON. Correct.

Mr. BEREUTER. I thank you, Mr. Chairman.

Mr. GEJDENSON. Thank you.

Mr. MANZULLO. I'm sorry. I got here late, Mr. Chairman. My understanding is that——

Mr. GEJDENSON. As a freshman, when you show up late, you lose your rights to offer amendments. [Laughter.]

Did you not check the rules?

Mr. MANZULLO. I do have some amendments.

Mr. GEJDENSON. Go right ahead.

Mr. MANZULLO. My understanding is that there will be no U.S. dollars used to capitalize this fund. Or will there be? Nobody wants to answer the question.

Mr. GEJDENSON. No.

Mr. ROTH. Of course there will be.

Mr. GEJDENSON. If you just give a second, I just want to——

Mr. MANZULLO. All right.

Mr. GEJDENSON [continuing]. Make sure that I didn't misunderstand you.

The answer is that you're incorrect. A fraction of the dollars are U.S. dollars. AID was given this authority in last year's appropriations bill. AID is developing an implementation process. We're looking at report language.

The Gentleman had missed the discussion where Mr. Bereuter raised the same concerns that I think the Gentleman had. It was my suggestion that maybe staff and the members could work between now and the full committee markup to see if there is any area of general agreement. If not, obviously members always have

the right to offer their amendments either here or in the full committee. I wouldn't want to preclude any member from doing that.

I would suggest that for all our purposes it would make the most sense to see if we can work it out between now and full committee in dealing with the Gentleman's concerns. Just as we've found in the past with Mr. Bereuter, Mr. Roth and others, we've been able to work things out; but this is not always the case. But I think they'll tell you that I've always protected their right to offer amendments as I think——

Mr. BEREUTER. That is true.

Mr. MANZULLO. Then I won't offer any amendments. My inquiry was if we're going to be funding this fund for overseas we're short on funds for our own cleanup problems here, and it's going to be hard to sell that back home. Just an observation.

Mr. GEJDENSON. Yes. There's no question that it's a politically difficult thing to do on all sides of the aisle.

Mr. MANZULLO. Thank you, Mr. Chairman.

Mr. GEJDENSON. Mrs. Meyers.

Mrs. MEYERS. Did you say, Mr. Chairman, that this would mean these funds from the United States would be contributed with funds from other countries?

Mr. GEJDENSON. Yes, that would leverage additional funding.

Mrs. MEYERS. And——

Mr. GEJDENSON. We wouldn't direct these to be singularly American dollars.

Mrs. MEYERS. Right. I'd like to sit in on those discussions. I don't remember the details of what we provided last year. This didn't concern me as much as I think it does my two colleagues because it did seem to me very similar to what we did in the debt for nature swap.

It was a little more roundabout process where it was a forgiveness of a certain amount of money, and we allowed that country to pay in their own currency instead of in dollars, and their currency went into a fund within their country. But when you got right down to it, it was dollars that should have gone to the United States, and instead it went into a fund. It was just a little more roundabout process.

Mr. GEJDENSON. If the Gentlelady will yield. Not that Mr. Bereuter needs a defender——

Mrs. MEYERS. Yes.

Mr. GEJDENSON [continuing]. and especially since I disagree with his concerns to some degree, but I think he would probably argue that there was some chance we weren't ever going to see those funds anyway. And, therefore, attributing those funds to debt for nature gave us at least the advantage of getting something internationally for something we might not get. And I understand the difference——

Mr. BEREUTER. What's that? [Laughter.]

Mr. GEJDENSON [continuing]. Difference between—and let make the other argument, however, that it's just as important to deal with this issue and that the benefit—that our dollars could attract lots of other dollars and have a tremendous benefit for our citizens as all other citizens, but I understand the political situation as well.

Mrs. MEYERS. And if Staff could maybe provide us with a refresher. I can't remember exactly what the details of that structure were last year and how our money is supposed to leverage money from other countries. And I just don't remember——

Mr. GEJDENSON. Be happy to do that. Other questions or comments?

Mr. WYNN. Mr. Chairman, would——

Mr. GEJDENSON. The Gentleman from Maryland.

Mr. WYNN. Thank you, Mr. Chairman. To summarize we have a couple of questions.

First, I—to me the private sector investment program is recommended for elimination. Could someone articulate the basis for that recommendation?

Mr. GEJDENSON. Could you repeat that. I'm sorry.

Mr. WYNN. The elimination of the private sector investment program; why? Would someone just, kind of, explain that. And also, how much money was involved with that program?

Mr. GEJDENSON. You can just—just from here. Right here. Just take that mic.

Ms. LATORRE. This is a program that we tried to eliminate 6 years ago, then 4 years ago, then 2 years. We were never satisfied with the data that AID provided to make sure that the loans were actually going to individuals that were previously unable to receive loans. There was a question if they were going to people that were, frankly, just higher risk borrowers that already had access to credit. We were just never satisfied with the management of the program. The Clinton administration funded it at zero. So, we went along with that recommendation.

Mr. WYNN. So, how many loans were actually made during the last—at the time of the last report?

Ms. LATORRE. I don't have that data with me. I could provide it to you.

Mr. WYNN. Thanks. I'd like to look at this program before we go to full committee markup. I've got——

Mr. GEJDENSON. We'll make sure that you and I get together with Staff, and we'll go over the details of it.

We ought to get somebody from the administration in who made the recommendation as well to sit down with us.

Mr. WYNN. That would be helpful.

My second question is dealing with the environment. And AID got a pretty substantial—about $650 million increase in this area. There's a question I have——

Mr. GEJDENSON. Would the Gentleman yield?

Actually, it wasn't an increase. What happened is in last year's budget——

Mr. ROTH. In 1 year?

Mr. GEJDENSON. I think in last year's budget, and in this years, there's a slight increase in the budget. What happened is they simply earmarked existing funds so that the dollars had always been spent. And what they did for the first time and, again, this time increasing that nominally, but, in fact, it doesn't increase overall spending. It's just segregating funds that are already spent, most of whom which I bet you were spent already on environmental projects.

Mr. WYNN. OK. My question actually dealt with the hiring by AID in this area. I would be curious as to whether these are U.S. hires and what percentage are minority persons.

Mr. GEJDENSON. The U.S. hires, I'm not sure of the——

Mr. WYNN. Are they all U.S. hires in this program?

Mr. GEJDENSON. The recommendation deals with U.S. hires, and we can check to make sure what the historical breakdown has been on who they hire.

Mr. WYNN. OK. Did you want to talk about OPIC now, or were you going to do it——

Mr. GEJDENSON. Go right ahead.

Mr. ROTH. Mr. Chairman, I wonder if I could answer his question. This particular program made $11 million in loans last year and lost $4 million. That's according to OMB.

Mr. WYNN. Is that the private sector——

Mr. ROTH. Yes.

Mr. WYNN [continuing]. Investment program?

Mr. ROTH. Yes.

Mr. WYNN. It made $11 million in loans and lost $4 million.

Mr. ROTH. $4 million. That's a pretty high——

Mr. WYNN. I can see why there's some concern. [Laughter.]

Mr. GEJDENSON. Even in Congress that's a bad ratio. [Laughter.]

Mr. WYNN. I'm wondering whether any steps were taken to, sort of——

Mr. GEJDENSON. We actually tried——

Mr. WYNN [continuing]. Tighten the program rather than eliminate it.

Mr. GEJDENSON. As I recall, over a number of years, Donna led the effort on the Staff's behalf, we tried to get them to give us guidelines, to give us better answers, and never got the answers.

Mr. WYNN. And now they're gone.

Mr. GEJDENSON. And—that's——

Ms. LATORRE. Then, last year we rewrote part of the program into the foreign aid bill, which was reported out of our committee but did not pass the House floor. I'd be happy to provide that to you.

Mr. WYNN. Yeah. OK. I appreciate it.

Mr. GEJDENSON. Thank you. Any other issue?

Mr. WYNN. The last question dealt with OPIC. Can you basically explain the difference in this bill that we have before us and what has gone on previously or the existing law.

Ms. LATORRE. Last year, the committee passed—actually, the House passed, by a wide margin, a total rewrite of OPIC. When it went to Senate conference, the Senate did not want to do a complete rewrite of OPIC. So, we just included the amendments that were absolutely necessary to sustain the program so the authorization would not lapse.

What we have presented to you is the exact same language that went through the committee and passed the House with one exception: we added language that was in Title 8 of the quick piece of legislation we passed through the House and Senate last year at conference that states that no money in this title—the OPIC title—can be used except—received. That's the only addition——

Mr. GEJDENSON. We got it done on the floor last year.

Ms. LaTorre. So, it's already law. We're just adding it again because it's a complete rewrite.

Mr. Wynn. Are there any caps on direct loans?

Ms. LaTorre. There's a program loan cap. Let me show you the page.

Mr. Wynn. OK. Fine. If she'll show me, that's fine, Mr. Chairman.

Mr. Gejdenson. Further comments, questions?

Mr. Fingerhut. Mr. Chairman.

Mr. Gejdenson. Yes.

Mr. Fingerhut. Two quick——

Mr. Gejdenson. Mr. Fingerhut.

Mr. Fingerhut. Thank you, Mr. Chairman. Two questions if I could. Under the Housing and Urban Programs office; the third recommendation. It's on the bottom of the first page of your summary sheet. There's the recommendation with respect to the office raising its fees to lenders for housing guarantees in an effort to offset claims. For someone who's new to this subject matter, who are the lenders and is there—do we have good reason to believe that there's money that could be recouped there? And then, perhaps——

Mr. Gejdenson. Well, we're presently——

Mr. Fingerhut [continuing]. Is there a stronger——

Mr. Gejdenson. Well, we're presently recouping the costs of the program. One of our colleagues on the committee was interested in flat out raising the fees. He was gracious enough to accept a review to see if it was practical. And we put the language in there to take a look if the taxpayers could continue to provide the kind of assistance that they've been happy to provide and break even if there possibly was a way to recoup a little more than breaking even and still provide the benefit.

And we thought, rather than a confrontation over an absolute raising of the fees that it made sense to have them take a look and report back to us.

Mr. Fingerhut. We're currently—we are currently breaking even on the program?

Mr. Gejdenson. Yes. As I understand it, we are.

Mr. Fingerhut. So, there's the desire to make a profit. Is that the——

Mr. Gejdenson. Well, it would be novel for government to make a profit but not necessarily against any of the laws that we function under.

Mr. Fingerhut. Mr. Chairman, the second question. Maybe this is of a similar nature in the sense of a compromise among competing interests on the environment section. Also the third recommendation on that last page that refers to AID increasing its support for energy efficiency and renewable energy projects in the developing world. Are we—do we have in mind an increased authorization or a set-aside of existing authorizations? Is there some set project that's contemplated here?

Mr. Gejdenson. No. It's a change in priorities, and I think it's the same kind of change we'd like to see in this country, frankly, renewables. But there's no specific projects in mind. Corning would be an excellent choice by the way.

Mrs. MEYERS. Isn't Israel the only country where we've ever had housing guarantee loans?

Mr. GEJDENSON. No, I don't think so. There's an existing program— Israel was—yes. Israel's totally separate, actually, from the existing program, but the program's gone on for a number of years.

Mrs. MEYERS. But this—in other words, would this be under the same conditions then as the housing loan guarantee version?

Mr. GEJDENSON. It's a separate operation, but we'd hope they'd look at all their programs and make sure they operate them in the best interest at providing housing—which is what we want to do in many of these poorer countries—and also take the best interest they can for the American taxpayer.

Mr. ROTH. Mr. Chairman. To dovetail with that I have an amendment I would hope that this committee would support me on. And that's to provide incentives to countries to be current in their debts to us.

Many of these countries who are looking for these loans are not current in their debts. And this amendment that I have would stipulate that no housing guarantees could be issued to a country whose country's government is in arrears in existing debts to the United States. In arrears would mean that they—overdue bills for over 90 days.

And the AID housing guarantees for next year are going to cost some $16 million eventual losses, and this is taxpayer's money. And I think especially when we deal with foreign aid and the like, we have to have public opinion supporting us in these areas.

Now, other U.S. credit programs, such as GSM Farm Export Credit Program, they have such a rule. But there is no rule when it comes to housing guarantees. And I would ask the committee to support me in that amendment.

Mr. GEJDENSON. If the Gentleman would yield. I would ask the Gentleman, since he'll be in the process by which we put the final markup up for the full committee, if he could hold his amendment and we could have some discussions between now and then to find a way that we can address the concerns that the Gentleman has as well as the concerns that—these are funds to help countries often in the most strenuous of economic conditions—that we might be able to find a practical way of achieving the Gentleman's goals without necessarily creating the kinds of hurdles that we might not want to put in the process.

So, for instance, if we have a country whose political stability we're worried about, and we're trying to move Russian—I'm not saying this is an example.

Mr. ROTH. Yes.

Mr. GEJDENSON. But if you're trying to move Russian troops out of Lithuania back into the Soviet Union you might want to use a similar program, not necessarily in this instance but in some other place. We might want to be able to access these funds to provide housing even if there are other financial problems going on. And maybe the Gentleman and I could work between now and the full committee—take a look at his concerns.

Mr. ROTH. Well, I appreciate the chairman's view. And, yes, let's work it out and see if we can come to some sort of accommodation. I'd appreciate that very much.

Mr. GEJDENSON. Mr. Bereuter.

Mr. BEREUTER. Thank you, Mr. Chairman. I have two comments. One was related to the discussion that just took place. And perhaps I've missed something again, but it does seem to me that the housing and urban programs have gone unexamined for far too long; that there needs to be better oversight by the Congress.

And perhaps one of the things that could be considered, if I may suggest it, is the possibility that we ought to have a—that we should request the formal GA audit of the program of the loan guarantee program for housing to see how, in fact, it has worked. And so that we might want to take some action next time if it seems appropriate.

Mr. GEJDENSON. Yes. I'd be happy to join the Gentleman in requesting that.

Mr. BEREUTER. Thank you. And is it possible we could actually do it as part of the legislation?

Mr. GEJDENSON. Let's see if that's necessary. If it's not necessary——

Mr. BEREUTER. It's not necessary, but it does, I think, probably give it a priority and it's in——

Mr. GEJDENSON. I don't see any problem. Let's discuss it between now and full committee.

Mr. BEREUTER. And I wanted to add my support and compliment to you or to whoever was involved in an element here that relates to OPIC. As I understand it, the interest that they earn on their reserves could well cover the losses on their international subsidy programs. And while this may be an issue between authorizers and appropriators, it does seem to me this makes a lot of sense instead of requiring the appropriations to take place every year and inflate what seems to be——

Mr. GEJDENSON. Right.

Mr. BEREUTER [continuing]. Our expenditures when, in fact, OPIC is making us money that could be——

Mr. GEJDENSON. Absolutely.

Mr. BEREUTER [continuing]. For that purpose. And I think your legislation addresses that, and I wanted to commend you for that and say that I think that's something we should hang on to.

Mr. GEJDENSON. Thank you. Mr. Fingerhut.

Mr. FINGERHUT. Mr. Chairman, just a point of clarification along these same lines. I had asked you the question about the guarantee and the raising of the rate, and your response was that this was a break-even. I thought I heard Mr. Roth in his statement with respect to his proposed amendment, which he withdrew, saying that we lost $16 million. Was that your statement, Mr. Roth?

Mr. ROTH. That's correct. We are going to be subject to——

Mr. FINGERHUT. Are we talking about the same thing, or are we talking about two different things?

Mr. ROTH. We're talking about the same thing. We are subject to losing——

Mr. GEJDENSON. Subject.

Mr. ROTH [continuing]. $16 million.

Mr. GEJDENSON. We haven't lost it yet.

Mr. ROTH. It's an estimate, right.

Mr. GEJDENSON. We'll work with the two Gentlemen between now and full committee markup.

Mr. ROTH. And I—if you'll—if the Gentleman will yield. I share your same concerns. That's why I introduced the amendment. But the chairman of our subcommittee here, Mr. Gejdenson, said he's going to work with us to try to work something out. And so——

Mr. FINGERHUT. I was just seeking clarification between what seemed to me were conflicting——

Mr. GEJDENSON. If there are no other comments or questions, all those in favor of the proposal say, aye.

[Chorus of ayes.]

Opposed say, nay.

[No response.]

The ayes have it. The committee's adjourned.

[Whereupon, at 2:01 p.m., the subcommittee was adjourned.]

APPENDIX

STATEMENT OF SAM GEJDENSON

CHAIRMAN

SUBCOMMITTEE ON ECONOMIC POLICY, TRADE AND ENVIRONMENT

MAY 4, 1993

The Subcommittee meets today to hear from the Administration and the private sector regarding those aspects of the 1994 Foreign Aid Reauthorization within our jurisdiction.

We will focus on a number of important issues in preparation for our Subcommittee mark-up on May 11, and to enable us to report to the full Committee by May 14, 1993.

At today's hearing we will address the following components of foreign aid:
-trade and aid, including the Trade and Development Agency, the Overseas Private Investment Corporation, the Office of Housing and Urban Programs, the Microenterprise Program, and the demise of the Private Sector Investment Program;
-funding for environmental protection and environmentally sustainable development in developing countries; and
-funding for non-proliferation and arms control- specifically the new money identified for export control purposes.

Given the vast area to be covered, we hope to move efficiently. I ask that the witnesses be crisp and to the point. We appreciate the cooperation of the Administration and the private sector in providing us with the necessary witnesses on such short notice.

JOHN EDWARD PORTER
10TH DISTRICT OF ILLINOIS

COMMITTEE ON APPROPRIATIONS
SUBCOMMITTEES
FOREIGN OPERATIONS
LABOR, HEALTH AND HUMAN SERVICES, AND EDUCATION
RANKING MEMBER

SELECT COMMITTEE ON AGING

COMMISSION ON SECURITY AND COOPERATION IN EUROPE
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Statement

of the

Honorable John Edward Porter

before the
Subcommittee on Economic Policy,
Trade and Environment
of the
House Committee on Foreign Affairs

May 4th, 1993

Mr. Chairman and members of the Subcommittee, I appreciate this opportunity to testify before the Subcommittee on Economic Policy, Trade and Environment regarding sustainable development and the future of U.S. foreign assistance programs.

I hope that, as this subcommittee considers what direction U.S. foreign assistance policy should take in the future, it carefully considers the documents produced at the United Nations Conference on Environment and Development (UNCED), held last June in Rio de Janeiro. This conference, better known as the Earth Summit, was an historic event and, by many measures, an extraordinary success. The largest gathering of heads of state in history, the Earth Summit yielded significant agreements on a wide range of issues critical to the health of the planet and to the future of humankind.

These documents include both binding and non-binding agreements. Among the binding agreements are the Convention on Climate Change and the Convention on Biological Diversity, which the United States recently announced it would sign. The other agreements -- the Statement on Forest Principles, Agenda 21 and the Rio Declaration -- are non-binding, but represent a strong international consensus on environmental and sustainable development issues. Together, these documents provide a coherent and comprehensive framework with which to integrate the goals of economic development and environmental protection.

My concern today, Mr. Chairman, is ensuring that UNCED's agreements receive adequate attention and follow-up. I had the honor of traveling to Rio de Janeiro as part of the official congressional Delegation to the Conference. I made a promise while I was in Rio that I would work to ensure that the commitments made at the Earth Summit would not be forgotten.

As we near the one year anniversary of the Earth Summit, Mr. Chairman, I believe that we need to review what actions we have taken to date to promote progress toward the Summit's goals. In my judgment, we have not done enough. I believe that it is time for the United States to institutionalize its commitment to the Earth Summit, and I propose that we do so by establishing a "Rio Commission" to review U.S. and international progress toward the Earth

Summit's policy goals. I have introduced legislation, H.R. 299, to create such a commission.

Modeled after the Helsinki Commission, the Rio Commission would consist of four members each from the House and Senate and three appropriate members from the Executive Branch.

Just as the Helsinki Commission has focused attention on international compliance with human rights and other provisions of the 1975 Helsinki Accords, the Rio Commission would monitor how well the United States and other UNCED conferees are following policy guidelines in the areas covered by the Rio Declaration, Agenda 21, and the other Earth Summit agreements. For example, the Commission would track action to promote sustainable development and to address threats to our global environment such as climate change, ocean pollution, deforestation, biodiversity loss and persistent poverty. The Rio Commission would serve solely as an advisory and information gathering body with no authority or responsibility for actual implementation of the UNCED agreements.

Mr. Chairman, the Rio Commission would provide the public with an official forum to voice its concerns regarding progress toward sustainable development and implementation of the Earth Summit agreements both in the United States and around the world. The Commission would receive testimony from and respond to the concerns of non-governmental organizations (NGOs), citizens groups and other private and public bodies concerned with sustainable development. NGOs played a critical role at the Earth Summit and continue to play a vital role in monitoring sustainable development initiatives as well as environmental and human rights abuses at the local, national and international level. They should be guaranteed an official forum to provide decision makers with their input, insight and expertise.

The Rio Commission could report on issues ranging from promising initiatives taken by community organizations to controversial projects funded by multilateral development banks. Furthermore, the Commission would not be limited to reviewing only official reports submitted by national governments, but would receive testimony and input from a variety of

sources on progress and -- equally important -- failures to implement the Summit's agreements.

Finally, the Rio Commission would provide the U.S. with an important opportunity to assess its own progress in the context of what actions have been taken or not taken by other countries.

Mr. Chairman, I have discussed my proposal with the White House Office on Environmental Policy and we hope to coordinate our efforts to ensure substantive follow-up to the Earth Summit both at home and abroad. I am currently working with that office to clarify some functions of the Rio Commission, and I hope to otter a revised version of my bill to incorporate the Administration's suggestions on the one-year anniversary of UNCED in early June.

The White House has suggested that I revise my bill to designate the following three representatives of the Executive Branch to serve as members of the Commission: the Administrator of the Environmental Protection Agency, the Director of the White House Office on Environmental Policy, and the Undersecretary of State for Global Affairs.

I hope that this subcommittee, as well as the full Foreign Affairs Committee, will favorably consider my legislation and that my bill will come before the full House for consideration in a timely fashion. It is ultimately important for the United States to reclaim the mantle of international environmental leadership and show other UNCED conferees that the Congress of the United States and the White House feel strongly about substantive and timely follow-up to Rio.

I thank the Subcommittee for the opportunity to testify.

TESTIMONY OF ASSISTANT SECRETARY OF STATE
ROBERT L. GALLUCCI
TO THE
HOUSE FOREIGN AFFAIRS SUBCOMMITTEE
ON
ECONOMIC POLICY, TRADE, AND ENVIRONMENT

May 4, 1993

Mr. Chairman, I am pleased to have the opportunity to discuss the export control components of the Administration's request for a $50 million non-proliferation and disarmament fund.

President Clinton and Secretary Christopher have called prevention and reversal of the proliferation of weapons of mass destruction one of the foremost security challenges confronting the United States in the post-Cold War world. They are committed to U.S. leadership in this effort.

We mean to stem proliferation of such weapons by:

- Seeking full and effective enforcement of non-proliferation treaties and agreements. These include the Nuclear Non-proliferation Treaty (NPT), Biological Weapons Convention, and the Chemical Weapons Convention (CWC).

- Seeking to improve the coverage, membership, and enforcement of non-proliferation export control regimes. This includes the Missile Technology Control Regime (MTCR), the Australia Group, and the Nuclear Suppliers Group.

- Reviewing and improving our own national export control system for ways to improve its ability to stem proliferation without harming essential commercial objectives.

- Continued application of Nunn-Lugar funding in the four nuclear states of the former Soviet Union (Russia, Kazakhstan, Ukraine, and Belarus) to assist in the safe and secure storage, transportation and dismantlement of the former Soviet Union's nuclear weapons and delivery systems.

The Nunn-Lugar funding addressed a very significant new challenge. We are using it to help Russia build storage facilities for the fissile materials from the nuclear weapons it is dismantling and for their components as part of the Gorbachev and Yeltsin unilateral initiatives on tactical nuclear weapons and the INF and START treaties. We are also assisting Russia, Ukraine, and Kazakhstan in the dismantling of strategic missiles and bombers, missile-carrying submarines and ICBM launchers.

But there are other proliferation challenges, in the non-nuclear states of the former Soviet Union (FSU), and in Eastern Europe, South America, Africa, the Middle East, and Asia.

Some of these challenges involve vigorous enforcement of international non-proliferation standards with respect to countries hostile to our objectives. For these cases, we want to ensure that export controls -- backed by good intelligence -- prevent commerce in dangerous exports related to weapons of mass destruction. We also need to ensure that the international bodies charged with carrying out inspections and monitoring -- the International Atomic Energy Agency (IAEA) and the UN Special Commission on Iraq (UNSCOM) are good examples -- are equipped for their jobs and receive our political support.

But just as significantly, there are a number of countries willing to accept and implement our non-proliferation objectives that do not have the expertise or resources to do so. Russia and the other FSU states that we help under Nunn-Lugar willingly accepted the need to promote the safety of nuclear materials and export controls, but required U.S. expertise and initial funding to help make these objectives reality.

Last year Congress, in the Freedom Support Act, authorized the President to make available up to $100 million in FY 1993 security assistance funds to promote bilateral and multilateral non-proliferation and disarmament activities.

We strongly support the purposes intended to be met by this congressional initiative. Unfortunately, FY93 security assistance funds could not be reprogrammed for these purposes because cutbacks and earmarks had reduced overall funding.

Consistent with the Freedom Support Act authorization, we are proposing establishment of a $50 million fund for Non-Proliferation and Disarmament in FY94.

This fund would be part of an integrated, government-wide approach toward non-proliferation, which includes the Departments of State, Defense, Commerce and Energy, and the Arms Control and Disarmament Agency.

I will outline the four components of the Department's Non-Proliferation and Disarmament fund:

- **education and training** $9.1 million: Most of these funds would help other countries establish and maintain their own export control functions.

- **destruction and conversion** $18.5 million: This would help fund destruction or conversion of weapons or facilities in those countries not eligible for Nunn-Lugar assistance that are willing to comply with weapons-control regimes such as the CWC or the MTCR, but who lack the financial or technical resources to do the destruction or conversion themselves.

- **enforcement and interdiction** $6 million: This would attempt to stem the sources and conduct of black market and other destabilizing trade in materials related to weapons of mass destruction.

- **safeguards and verification** $16.4 million: This will assist international organizations to conduct more creative and effective inspections to enforce international agreements.

Four programs focus directly on export control-related activities and totaling $8.1 million:

- **Export control training** ($5 million): Offer export control assistance -- like that we are now offering the four nuclear FSU states under Nunn-Lugar -- to other FSU states, East Europe, and non-European states. It would concentrate on weapons of mass destruction and conventional arms transfer controls, and could include our provision of computerized information systems and establishment of training centers within the countries to create more effective export control systems;

- **Non-proliferation outreach** ($1 million): Explain U.S. nonproliferation policies and their effect on industry to government and industry officials of other countries. The objective would be to show how our industry accepts and copes with proliferation-related restrictions, and to promote such acceptance by foreign industries.

- **Prevention of nuclear smuggling** ($1 million): Provide financial and technical assistance to enforcement organizations in FSU and Eastern European countries to stem the potential for smuggling of nuclear materials out of the FSU and Eastern Europe. This could include setting up communication or computer networks, as well as establishing cells within enforcement organizations to focus on this threat.

- **Technical studies into export control regimes** ($1.1 million): Support technical studies that will lead to improvement in the effectiveness of the multilateral export control regimes, including the Nuclear Suppliers Group, MTCR, and the Australia Group.

Of these, only the technical studies program addresses controls on U.S. exports. The remainder focus on helping other countries establish and maintain their own export control functions.

Finally, I hope you will understand that this is a very new program. We are still in the process of finalizing exactly what each program under this fund will do. Moreover, we want this program to allow exploitation of unexpected opportunities; we cannot predict those now but we will need maximum flexibility to permit us to do so. We will work with you and other Congressional committees over the next few months to define more precisely the activities under this fund.

TESTIMONY OF EDWARD L. SAIERS
ACTING DIRECTOR, POLICY DIRECTORATE
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
before
HOUSE FOREIGN AFFAIRS COMMITTEE
SUBCOMMITTEE ON ECONOMIC POLICY, TRADE AND ENVIRONMENT
MAY 4, 1993

Mr. Chairman, thank you for inviting me here today to testify about A.I.D.'s programs in the subcommittee's areas of concern. I am joined here today by Peter Kimm, Director of A.I.D.'s Office of Housing and Urban Programs.

In my remarks, I will be addressing issues concerning A.I.D.'s appropriate role in sustainable development and U.S. export promotion. Both of these are significant aspects of our country's economic interest and both play a central role in the Administration's economic strategy.

Trends in U.S. Exports

Exports have become an increasingly prominent factor in the U.S. economy. Since 1989, U.S. exports have grown by nearly 21% in real terms, accounting for over 85% of the increase in the U.S. GDP. Manufactured exports, which for many are the standard by which U.S. competitiveness is judged, have risen even faster.

Developing countries are looming ever larger as markets for U.S. exports. The President's 1992 annual report on U.S. trade contains

compelling evidence of this fact. U.S. exports to developed countries grew by only 13.7% in the three years ending in 1992. In 1992 alone, U.S. exports to developing countries rose by 13.6%, and over the three-year period our exports to developing countries grew by an impressive 41.5%. At the end of the period, developing countries accounted for 37.3% of U.S. merchandise exports, compared to only 32.4% at the beginning of the three-year period. In his remarks at American University earlier this spring, the President noted that developing countries have become a rapidly expanding U.S. export market and pointed out that fully three million American jobs can be attributed to our exports to these countries.

To be sure, the developing countries which now account for much U.S. export growth are more advanced economies in Latin America and Asia. Exports to Mexico increased by over 60% in the past three years; to ASEAN countries, by 47%. However, other developing countries also are rapidly becoming important markets for the U.S.: exports have seen a steady growth over the past few years across <u>all</u> developing country regions. The Mexicos and ASEAN countries of tomorrow are being created even as we speak, and A.I.D. is playing a key role in this process.

<u>Factors Contributing to Sustainable Development</u>

What has produced progress in these emerging developing country markets? And what role has foreign aid played in this progress?

Many factors are at work in developing economies, but certain elements are the linchpins of sustainable growth and development. All of them involve expanding people's opportunities and their ability to respond to them.

First, people need a rising quality of life, through access to education, health care, and reproductive choice. Expanding individual skills and opportunities through investments in education is critical to a country's long-term economic health. Basic health care is likewise an investment in people, who can then be active and productive contributors to the economy as both producers and consumers. Information about reproductive options and availability of contraception serves to increase people's, especially women's, choices and productivity, and helps limit the population expansion that can erode per capita economic growth. Improving the quality of life in developing countries also requires appropriate investments in infrastructure, including schools, clinics, and roads.

Second, developing countries must establish institutional capacity in both the public and private sectors. This includes establishing democratic political institutions grounded in the rule of law and accountability to the people they govern. It also includes strengthening private institutions capable of contributing constructively to economic and social progress. Effective development assistance helps build self-sustaining, autonomous,

well organized and staffed institutions. The payoff comes when these institutions no longer require development aid in order to remain viable.

Third, expanding economic opportunity through growth is at the root of the development process. Growth in the economy raises incomes overall, and creates the conditions for boosting the living standards of the poor. The World Bank showed in an important 1990 study of growth and poverty in eleven developing countries that economic growth was accompanied by significant declines in the incidence of poverty as well as in the absolute numbers of poor people.

We know that economic growth cannot be sustained without careful attention to preserving the environment. If growth is achieved at the expense of the world's natural resources, benefits will be short-lived and the future of our planet mortgaged. By the same token, if environmental reforms and interventions are not undertaken within a country-based context of growth and development, protection of natural resources for future generations cannot be assured. A.I.D. has a long history of strengthening human and institutional capacities to manage natural resources; building public awareness of key environmental problems; supporting local efforts to change wasteful economic and environmental policies and procedures, and encouraging private sector participation in environmentally sound activities. We plan to

ensure that such efforts continue to receive priority attention in A.I.D.'s programs.

Expanding U.S. Exports

At American University the President stated, "We need to promote the steady expansion of growth in the developing world, not only because it's in our interest, but because it will help them as well." Based on the experience of emerging developing country economies, an outward orientation and market-based economic policies appear to be the best way to achieve such growth. There is a compelling connection between countries that are undertaking economic reforms and the flow of U.S. exports. In the latter part of the 1980s, U.S. exports increased by 77% in policy-reforming countries, compared to growth of only 40% in our exports to non-reformers. Extending this analysis through 1991, U.S. exports to reformers increased another 50%, but only 6% to non-reformers.

A.I.D. recently compared the growth in U.S. exports between 1985 and 1992 for 69 countries receiving A.I.D. assistance, and related this to an index of economic policy performance in those same countries. The results are striking: U.S. exports to the ten best-policy countries grew by 251%, or more than $7 billion. For the ten poorest-policy countries, U.S. exports rose by only 30%, or $600 million. The top ten countries in this calculation spanned Latin America, Asia, and Africa, proving that policy performance is

not restricted to only certain parts of the developing world. This shows that the kinds of efforts that promote broad-based growth in developing countries also benefit our own economy by expanding purchasing power in these emerging markets.

A.I.D. assistance to developing countries also yields immediate benefits in exports of U.S. goods and services. Consulting services by U.S. firms and training programs introduce American expertise and standards to developing-country markets, while a variety of goods, from commodities to construction equipment, is purchased under A.I.D. programs. In addition, A.I.D. is opening up financial sectors worldwide, making way for U.S. providers of financial services which have a comparative advantage in this field.

<u>U.S. Technology and the Environment</u>

The United States is also a world leader in environmental technology. As developing countries pursue environmentally sustainable strategies for growth, their need for such goods and services greatly increases. U.S. companies need to be in a position to benefit from this increased demand, and opportunities are opening up in this area. Privatization efforts which A.I.D. is assisting worldwide are creating new opportunities for competitive U.S. technologies. The Global Environment Facility gives U.S. environmental firms access to contracts financed from an untied

pool of donor funds. A.I.D. is working with other agencies on the Trade Promotion Coordinating Committee to develop a strategy for ensuring that U.S. companies are able to compete on a level playing field in the world market for environmental and other technologies.

There are two important points to keep in mind in this context:

-- First, large U.S. companies must not be the only ones to gain access to this growing market. Small and medium-scale firms often will have innovative solutions to offer if they have appropriate access to information and programs. A.I.D. has an active Office of Small and Disadvantaged Business Utilization, whose purpose is to help small and minority- or women-owned U.S. businesses compete for our contracts, grants and procurement.

-- Second -- and critical from A.I.D.'s standpoint -- the technologies offered must be appropriate for developing countries. This means they should be designed taking into consideration the abundant labor and limited capital available in developing countries and the costs associated with ongoing operation and maintenance. Too-sophisticated or too-expensive solutions to environmental problems may themselves not be sustainable.

Spreading the Benefits of Growth

The President has called for "a fair distribution of the fruits of growth" to developing-country populations. More than economic growth is required to make this a reality. Ensuring growth, but also ensuring that its benefits are spread fairly, are two sides of the same coin for those engaged in sustainable development. Economic opportunity has been a cornerstone of our own country's vitality, and it is one of the most significant exports the U.S. can send abroad.

The major part of the A.I.D. program is geared toward broadening access to opportunity to those who have been excluded.

-- Among bilateral donors, A.I.D. is the largest supporter of primary education. In Guatemala, for example, A.I.D. has expanded educational opportunities for the neglected Mayan population.

-- As the largest supplier of family planning assistance, A.I.D. provides close to half of all the funds worldwide for that purpose. In Bangladesh, the largest recipient of U.S. population funds, the total fertility rate is now 4.6, down from 7.5 per family in the early 1970s.

These efforts may not appear to have much to do with U.S. exports, but in fact they do. Educational opportunities translate into a more literate population with better employment prospects and a higher standard of living. Lower fertility means expanded economic horizons for women and higher per capita incomes overall. These contribute to transforming poor people into producers and customers and creating markets for U.S. goods and services.

Since the mid-1970s, A.I.D. has helped many poor micro- and small-scale entrepreneurs, many of them women, start or upgrade their businesses. Thriving small-scale enterprises translate into jobs and higher incomes for otherwise unemployed individuals and higher demand for consumer and durable goods. Assistance to micro- and small-scale enterprises will continue to be a central concern in A.I.D.'s programs because we firmly believe in their key development role. A.I.D. now is assessing its experience in this area to ensure that future programs emphasize factors most likely to yield the best results.

<u>Laying the Foundation for U.S. Exports</u>

Mr. Chairman, other agencies can tell you about the success of their programs in directly promoting exports and business for the U.S. abroad. A.I.D.'s role in U.S. export promotion, though largely indirect, is as important as it is far-reaching. By helping create the conditions for sustainable and broad-based

growth and expanding economic opportunities for individuals in developing countries, we help make them more prosperous and better customers for U.S. exports. This lays the foundation for the types of promotional programs administered by other agencies such as TDA, OPIC, and ExIm.

A.I.D. cannot claim credit for all the advances made by developing countries, nor for the benefits which have accrued to the world economy from their development. Many other actors are involved, and the efforts and determination of the countries themselves are of course at the center of it all. Neither should we refrain, however, from taking our share of the credit. Our influence is disproportionate to the money we expend given that other donors often rely on our field missions to coordinate their assistance. Throughout the developing world, A.I.D. has helped create the conditions for growth and development which are paying off in higher U.S. exports today.

Mr. Chairman, I would like for you and the other members of this subcommittee to retain two key messages from my testimony today:

-- First, A.I.D.'s programs have had a clear impact on developing country growth and, through it, on international economic growth and U.S. exports. The facts, as cited above, show that progress need not take decades. The President has pointed out how closely the

U.S. now is woven into the global economy, and the growing importance of developing countries in that global economy. An investment in these countries provides one of the best investments in U.S. exports that the U.S. can make.

-- Second, sustainability must be at the core of all our efforts in developing countries. To be sustainable, growth must take root through enhanced human and institutional capacities and market-based policy changes, with close attention to the impact of development gains on the environment. Environmental investments in developing countries must also be sustainable, in terms of their appropriateness for labor-intensive economies, ongoing operating and maintenance costs, and the public support needed to ensure efforts continue in the future.

Mr. Chairman, the precise shape of our future foreign aid program is not yet clear. Only close collaboration between the Administration and Congress will produce answers for the future. We look forward to a close and constructive relationship with Congress as we forge a new consensus on foreign aid.

Thank you.

Statement of Peter Kimm
Director, Office of Housing and Urban Programs
Agency for International Development

Before the
Committee on Foreign Affairs
Subcommittee on International Policy, Trade and Environment
House of Representatives
May 4, 1993

Mr. Chairman: On behalf of the Agency for International Development, I am pleased to appear before this Committee and report on the activities of the A.I.D. Office of Housing and Urban Programs and the Housing Guaranty resources we administer.

For FY 1994, the President has requested authority and appropriations for a worldwide Housing Guaranty program level projected at $110 million. The countries where we plan new guaranty programs appear in the table below. This level of new activity will require appropriations of $16,407 million of subsidy costs and $8,407 million for administrative expenses. In addition to these guaranties, we manage the $10 billion Israel Guarantee program authorized by the Congress last year, the $400 million Israel HG program enacted in FY '91, and we manage approximately $250 million of grant-financed technical assistance programs in the housing and urban sector worldwide. Included in this last figure are housing programs in the former Soviet region, Eastern Europe and South Africa. Housing has been established as an A.I.D. priority in these regions where we are advising on issues that include the privatization of public housing stock, housing finance, and housing construction technology.

The world has continued to change in recent years and we have adjusted accordingly. In the traditional developing countries (as opposed to the former communist nations), we rarely finance directly the building of houses anymore even though our name suggests otherwise. In fact, we advise LDC governments that they should cease building houses--and instead concentrate their limited construction budgets below the ground in urban water, sewer, roadway and slum upgrading systems. The construction of housing is then better left to the initiative of families and private sector entities. We in A.I.D. developed and promoted this policy reform in the early 1980s and, through a combination of housing guaranties and technical assistance, have helped in the realization of significant policy change in LDCs. Today, as a result of our sustained efforts, many LDCs are more effective in directly bettering the lives of their low income urban populations.

Demographic changes in the third world, resulting in a virtual explosion of urban populations, has caused change in our programs. Today almost half the third world population is living in urban areas; with most of this population being desperately

poor. The urban numbers are rapidly increasing. This is not necessarily all bad. There is no developed country today that does not have cities where skills and jobs are concentrated and production efficiencies are made possible. Yet if we want to address the needs of the poor and promote growth, we have to have effective urban programs. It is clear that any lasting development successes A.I.D. may have, whether in the areas of environment, democratic governance, or basic human needs will be measured in large part by how well cities of the third world are managed. The Office of Housing and Urban programs, again using a combination of housing guaranties and technical assistance has addressed urban problems by designing pilot projects which construct urban infrastructure on a self financing, sustainable manner; projects which decentralize the design and financial responsibilities for infrastructure from central governments directly to the municipalities; and projects which provide U.S. experts, such as members of the United States International City Managers Association, the National Associations of Realtors and of Home Builders, Fannie Mae, and others to train LDC municipal officials and private sector groups in city management and related areas.

The typical A.I.D. Housing Guaranty project in the countries listed below will have started with an assessment of the policy and institutional constraints to adequate shelter and supporting infrastructure in the society. Thereafter we negotiate an agreement between the United States Government and the recipient country to institute reforms designed to address the constraints. We assist the recipient on the agreed upon reform agenda with technical assistance and training. At the same time, to complement and reinforce the reform agenda, we use the guaranty resources to finance projects that benefit lower income families in a direct and tangible manner.

Budget changes have affected our Housing Guaranty operations. While in the past we were legislated as an off budget activity, we have just completed our first year of operations as an on-budget program under the truth-in-budgeting rules of credit reform. Credit reform has allowed us to pursue a HG program with all new obligations being supported with annual appropriations on a pay-as-you-go basis. Today, for every dollar of assistance provided to LDCs by lenders with the AID Housing Guarantee, OMB and the CBO estimate we will need appropriations of approximately 15 cents. We are pleased with these numbers because we deliver a development program with policy and institutional reform similar to donor grant programs--but at a much reduced cost.

We have a staff of approximately 40 urban planners, economists, engineers, architects, lawyers, housing finance, community development and other professionals who are working worldwide on sectoral issues. The direct hire staff is supported by US private sector experts including staffers affiliated with those

Associations mentioned above. We have concentrated our sectoral expertise in a single office with a small targeted overseas presence. We value the benefits derived from keeping our technical expertise together and intact, working for overseas AID missions who provide policy guidance and set priorities on country issues.

The housing guaranty programs proposed for FY 94 and estimated for FY 93 are:

Country	Amount ($000) FY 94 proposed	FY 93 estimate
Central America	5	10
Czech Republic	10	10
Hungary	10	10
India	20	20
Indonesia	25	25
Morocco	10	20
South Africa	5	5
Slovak Republic	10	-
Sri Lanka	5	5
Tunisia	10	10
Zimbabwe	-	20
	110	135

I have been asked to address five specific questions of the Subcommittee.

1.) The first is how we determine which countries to conduct our programs in each year. We start with presumption that only a certain group of more highly-developed countries should receive development assistance on near market rate terms that are provided by HG assistance. Generally these countries will be those that are eligible to borrow from the IBRD on terms equivalent to HG terms. Within this limited universe of some 25 countries, we engage in continuing consultations with the USAID Missions and, if approved, LDC officials to determine their interest in HG assistance. If there is an expression of interest, we engage in studies to determine if there is a climate for reform in the country and if the constraints in the sector coincide with our areas of emphasis. If, for example, a country wants only the transfer of hard currency from a HG and is unwilling to engage in policy dialogue leading to sectoral reforms, we would be unwilling to commit our limited resources toward that country. Our style of operation is to work with the host country to set policy reform and institution building objectives that can be achieved over a three to five year period with HGs, complemented by grant financed technical assistance. We depend on Mission funded technical assistance to make our HG assistance effective. This means that the USAID Mission in a specific country and the regional Bureau it reports to have

determined that they want to work in the shelter and urban sector and they are willing to commit scarce grant budgets to support the HG assistance. With reference to the specific list of countries for FY 94, these reflect a continuation of multiyear efforts as well as some new starts and a partnership between the USAID Mission and the Office of Housing and Urban Programs.

2.) We do not seek specific authorizations or appropriations for non-HG urban activities because the Administration opposes earmarks. The Agency prefers a bottom-up approach in which field Missions set priorities for the use of development resources. USAID Missions in countries not able to participate in the HG program can dedicate a portion of their Development Assistance budgets to urban activities if they so prioritize their programs.

3.) The issue of using HG assistance in poorer countries by increasing the subsidy appropriations will have to be considered by the new Administration. The overall debt situation in each country should be an important factor in this issue--not just the U.S. foreign assistance budget implications.

4.) The following is a brief justification for the FY 93 and 94 HG program listed above:

Per Congressional direction, A.I.D. is seeking to resume selectively HG assistance in Latin America. The Central America Bank for Economic Integration, the proposed HG borrower, represents an institution which can channel HG resources to the Central American countries in an efficient way minimizing credit risk. The program focuses on financing critical urban infrastructure for the municipalities of Central America and supports A.I.D. Democratic Initiative programs in the region.

The HG programs in the three Eastern European countries listed represent extensions of the initial East Europe regional HG program authorized in FY 91. As most of the resources in the regional HG are programmed for Poland, these new projects will meet the housing and urban infrastructure needs of the other participating countries.

In the Asia and Near East countries, A.I.D. is embarking on cutting edge urban environmental HG programs. Each of these projects will finance urban environmental infrastructure and pursue a policy reform agenda with a primary focus on improving the urban environment. We expect these projects to serve as models for the next generation of HG programs.

In South Africa housing has been identified, along with education, as one of the two most important sectors for U.S. Government assistance. This HG program will provide capital financing to complement A.I.D. grant funded urban activities in providing low-income housing. The HG funding for Zimbabwe

represents the second tranche of an ongoing program whose objectives are to increase the efficiency of the housing finance and construction sectors in providing low-income housing. Already the program has increased the availability of low-income housing from 23% to 70% of the population and has significantly increased the availability of land for low-income housing development.

5.) A.I.D. uses the subsidy formula and related accounting procedures mandated by OMB without any variation.

U.S. TRADE AND DEVELOPMENT AGENCY
Washington, D.C. 20523-1602

STATEMENT OF

NANCY D. FRAME

DEPUTY DIRECTOR

U.S. TRADE AND DEVELOPMENT AGENCY

BEFORE THE

HOUSE FOREIGN AFFAIRS COMMITTEE

SUBCOMMITTEE ON INTERNATIONAL

ECONOMIC POLICY, TRADE AND ENVIRONMENT

MAY 4, 1993

Good morning Mr. Chairman. Mr. Roth. and other members of this Subcommittee. It is a pleasure for me to be here to testify on behalf of the U.S. Trade and Development Agency (TDA).

First, let me tell you how pleased we are that the President has proposed a 50 percent increase in TDA's FY 1994 budget. A $60 million appropriation will enable us to better assist U.S. companies compete for export opportunities in the growing but risky markets in developing and middle-income countries.

TDA is a commercially-oriented foreign assistance program. We offer grant funding for feasibility studies and other project planning services on major infrastructure and industrial projects in developing and middle-income countries around the world. The TDA-funded studies are designed to determine the technical, economic, and financial feasibility of major projects and to provide detailed data for making decisions on how to proceed with project implementation.

We focus on those projects which are identified by the host country as priorities and which will have a significant impact on the country's economic development. TDA projects must also offer the potential for significant export opportunities for U.S. equipment and services at the project implementation stage. Our basic operating premise is that if U.S. firms are engaged in the initial planning stages of a project, then the likelihood of U.S. procurement in downstream activities is greatly increased. Through this process, TDA leverages U.S. tax dollars for the maximum benefit of both the recipient country and the U.S. private sector. Thus, the foreign assistance we provide brings reciprocal benefits back to the United States in the form of increased exports and jobs.

To date, U.S. exports associated with TDA projects are over $4.6 billion. Since our beginning in 1980, TDA's expenditures total over $240 million; of that amount, over $70 million was obligated in the last two fiscal years. Computing an accurate cost-benefit ratio for TDA is difficult because, as a general matter, insufficient time has passed for projects funded in the last two fiscal years to have been implemented. If the $4.6 billion export figure is matched with obligations of $170 million, the amount obligated as of fiscal year 1990, TDA-funded projects have already brought over $25 in U.S. exports for every taxpayer dollar spent. Significantly greater returns are expected as more projects move toward implementation. Based on the often quoted statistic that for every billion dollars of exports 20,000 jobs are created, TDA projects have had a hand in creating so far over 90,000 U.S. jobs.

But exports and jobs are only part of the TDA story. To fully appreciate the important role TDA plays in stimulating the U.S. economy, I would like to share with the Subcommittee our experiences in establishing and operating our program in the Newly Independent States (NIS) of the former Soviet Union. This will illustrate how U.S. foreign assistance can make a difference both here in the United States and overseas.

President Clinton has stated "that it is important for the U.S. to try to move aggressively to give the Russians the means to restore some economic growth and opportunity and preserve political liberty." TDA has acted quickly to give the U.S. private sector the opportunity to create growth in the former Soviet Republics. We were authorized to begin our activities there in late November 1991 and signed our first NIS grant in March 1992 with the Government of Ukraine. In the intervening year, TDA's program in the NIS has become one of our most active. We have funded 24 feasibility studies and a number of other smaller seminars and orientation visits totaling over $11 million.

I believe TDA's approach offers many advantages. By making grants for project planning studies, TDA provides an incentive for U.S. companies that are interested in developing business in Russia but are unwilling to assume all of the political and economic risks. Unlike the technical assistance programs of many of the other

donors, which make unilateral decisions on what activities to fund, TDA requires that all project proposals be accompanied by a specific endorsement and a formal request to TDA for funding from the appropriate host country authority. Thus, whether the request comes from a Minister, Regional Governor, Mayor, or General Manager of a large enterprise, TDA ensures that we are funding projects that will have the highest level of support from all the key players when it is time to make the push for project implementation. This also helps to protect our firms from wasting their time and money in pursuing projects that are likely to go nowhere.

Likewise, when we fund a feasibility study, we sign a grant agreement directly with the host-country sponsoring entity, which becomes the Grantee. The Grantee then selects the feasibility study contractor, which must be an American firm, and signs a contract with that firm. Although we pay the American firm in the United States, we do so only after receiving approval of the U.S. contractor's work by the Grantee. In other words, we make sure that the client for the study is the Grantee, not the U.S. Government. This ties the local organization into the project very closely, ensuring that it gets the product it expected, while at the same time helping to create a closer bond between the local organization and the U.S. contractor. This feature distinguishes our program from the European and Japanese models, which fail to include the beneficiary of the assistance in many of the key decisions, including selection of the contractor and actual preparation of the feasibility study. We find that, because of this distinction, our NIS counterparts find our program to be much more attractive than those of our competitors.

U.S. firms, for their part, are operating in the NIS under conditions that work to their disadvantage and that they are largely powerless to affect without some kind of government assistance. For example, Russian authorities are used to dealing with foreign partners on a government-to-government basis. And, while many U.S. exporters are spending their own resources to develop new markets in the NIS, their competitors have the direct or indirect support of their governments. Often, this support takes the form of grant funding for feasibility studies, training, project financing, and other types of technical assistance. Not only does this give our competitors a clear financial advantage, it also raises their profile in the eyes of their NIS partners because of the active support and participation of their respective governments. TDA is in a unique

position to help American companies overcome some of these barriers.

TDA grants for feasibility studies on key infrastructure projects send a strong and clear message of support and commitment to political and economic reforms in the NIS, while opening new doors for U.S. exporters. This is illustrated by a grant we recently signed for a study on the conversion of a shipyard in the Russian Far East. This project involves both defense conversion and assistance for Russia's critical oil and gas industry. The shipyard, located at Komsomolsk-na-Amur, in the past produced submarines for the Soviet Navy. The feasibility study being partially funded by TDA will examine the possibility of converting the shipyard to the production of offshore oil platforms that will be necessary to develop oil and gas reserves in the offshore region around Sakhalin Island.

The study is being carried out by McDermott Corporation, one of the world's premier offshore platform manufacturers. As a sign of its seriousness and commitment to the project, McDermott is contributing $350,000 of its own to the feasibility study to complement TDA's contribution of $400,000. The project when implemented will involve substantial exports of U.S. goods and services to convert the shipyard facilities. In addition, McDermott's involvement in the project will support broader U.S. industry interests, since McDermott is part of a consortium of companies, which includes a U.S. oil company, Marathon Oil, negotiating for offshore oil and gas development rights in that region.

In other regions throughout the world, TDA's program remains strong and active. Demand for program funds continues to grow as more countries become eligible for TDA assistance and U.S. companies become more knowledgeable about our program. TDA obligated $8.3 million in Asia in FY 1992, up from $6.3 million in FY 1991. Much of the funding in the Asia/Pacific region has been dedicated to the energy sector. The projects we are participating in, such as a series of ASEAN power grid interconnection projects and major energy efficiency and expansion programs in Malaysia and Thailand, offer excellent opportunities for U.S. companies. TDA is also an active player in the U.S.-Asia Environmental partnership. U.S. companies offer some of the world's most advanced technologies in the environmental services sector. In FY 1992, TDA committed over $1.7 million to environmental projects in this region in support of

U.S. companies' efforts to enter these markets. Projections for continued strong economic growth in the Asia region over the next five years will ensure growing demand for TDA activities.

TDA's program in Central, Eastern and Southern Europe continues to assist U.S. companies provide advanced technology and goods and services to rebuild the infrastructures of these budding democracies. In FY 1992, TDA obligations for this region topped $12.6 million. This was slightly up from $12.2 million spent in FY 1991. Moreover, through cost-sharing, TDA was able to increase the number of activities supported in this region from 66 in FY 1991 to 90 in FY 1992. The projects we supported varied from thermal power plant rehabilitation in Lithuania to telecommunications modernization in Hungary. In all cases, these projects represent top priorities of the host governments.

Latin America provides a natural market for U.S. companies. In FY 1992, TDA obligated $6.8 million for 63 activities in Latin America and the Caribbean. This was down significantly from the $11 million in FY 1991 because of competing demands in other regions. While the overall spending level dropped, TDA concentrated our program resources in Mexico, Chile, Argentina, and Venezuela, as these countries have made the greatest gains in privatizing their industries, opening their markets to foreign investment, and restructuring their foreign debt. As other countries in the region, including Brazil and several of the Central American countries, move in the same direction, commercial opportunities for U.S. companies will grow and TDA will become more active in those countries.

Africa remains a challenge for U.S. companies. The dynamic changes occurring throughout the continent are bringing more and more opportunity for U.S. companies. Competition continues to be strong from Africa's historical European trading partners who are active supporters of commercial development in their former colonies. TDA's approach to this region has been to support U.S. companies in their most competitive sectors such as agriculture, energy, environmental services, mining, aviation, and telecommunications. Our goal is to make long-term steady progress assisting U.S. companies enter these emerging markets. The budget for the Africa and Middle East region was expanded from $2.3 million in FY 1991 to $5.3 million in FY 1992. TDA anticipates obligating $5.5 million in this region in FY 1993.

TDA is constantly looking for ways to improve our program to ensure it remains responsive to the needs of U.S. companies and makes the most efficient use of our resources. Working toward this end, TDA has implemented a project life-cycle approach. This requires that TDA staff track closely the progress of the project after the feasibility study stage to determine if a TDA-funded follow-on activity, such as an equipment orientation visit or a business briefing, might be appropriate to ensure the greatest possible procurement of U.S. goods and services.

As foreign markets become more competitive, the ability of companies to include attractive financing in their bids has become a critical element in whether or not they are able to win major projects overseas. Given the importance to the U.S. economy of expanding U.S. exports, the Administration looks forward to working with the Subcommittee to address this important issue of project finance.

In conclusion, Mr. Chairman, I would like to underscore our belief in the special importance of the trade and investment assistance provided by TDA and other U.S. Government agencies. In the large but risky markets in the developing and emerging economies of the world, our assistance is often essential in facilitating U.S. investment and exports.

Yes, the potential commercial benefits are great for the particular investor or exporter involved in a specific project. And, the U.S. Government has a broader strategic interest in promoting U.S. private sector involvement in developing and middle-income countries. The recent summit between President Clinton and Russian President Boris Yeltsin highlighted the growing importance of trade and investment in U.S. foreign assistance. The proper role for the U.S. Government is to facilitate the involvement of the U.S. private sector to help in providing the necessary technology required to assist economic growth, thus creating a healthy give and take between a strong U.S. economy and the development of a global marketplace.

As TDA's activities demonstrate, the U.S. private sector can play an important role in providing economic growth and opportunity, contributing far more in certain areas than the U.S. Government acting alone. What TDA strives to do throughout the world is to use the resources we have to encourage and assist our private sector in this vital endeavor.

In closing, Mr. Chairman, let me thank you for the strong support this Subcommittee has given TDA. We look forward to working with you in the coming year to enhance the effectiveness of our program.

OPIC Overseas Private Investment Corporation

STATEMENT OF

JANE H. CHALMERS

ACTING VICE PRESIDENT AND GENERAL COUNSEL

OVERSEAS PRIVATE INVESTMENT CORPORATION

BEFORE THE

SUBCOMMITTEE ON ECONOMIC POLICY, TRADE AND ENVIRONMENT

COMMITTEE ON FOREIGN AFFAIRS

U.S. HOUSE OF REPRESENTATIVES

MAY 4, 1993

Mr. Chairman and Members of the Subcommittee:

I am pleased to represent the Overseas Private Investment Corporation ("OPIC") at this important hearing today. As you know, President Clinton has announced his intention to nominate Ruth Harkin to be the next President and Chief Executive Officer of OPIC, and Christopher Finn to be Executive Vice President, both subject to Senate confirmation. We look forward to their arrival at OPIC and to their experience and new ideas as we work to make OPIC as effective as possible a part of President Clinton's agenda for national renewal.

At the outset, Mr. Chairman, let me express the sincere appreciation of all the employees of OPIC and our clients to you, your colleagues and your dedicated staff. The diligent work which you undertook last year to secure passage of the Jobs Through Exports Act is very much appreciated by all of us at OPIC and will help to make OPIC more effective in creating jobs for American workers and strengthening America's competitiveness in global markets. We thank you for your confidence and support.

In your letter of April 26, you asked OPIC to address five issues: a review of OPIC FY 1992 activities; requests for new authority; implementation of Section 599 of the Foreign Operations Appropriations Bill; OPIC efforts to ensure that U.S. jobs are not exported overseas: and comments on H.R. 4996 as passed last year by the House of Representatives. Some of these questions may be hard to answer at this point in the transition, but I hope I can assist you in your task and, in the process, add to your understanding of OPIC programs.

I. OVERVIEW OF OPIC ACTIVITIES

How OPIC Serves Our Foreign and Domestic Policy Goals

At the outset, for the benefit of the new Subcommittee members let me briefly describe OPIC. OPIC helps U.S. companies compete more effectively in the global marketplace, creates jobs here at home, increases exports of U.S. products and facilitates the spread of free enterprise and democracy, while at the same time helping the developing world. We achieve these objectives through our finance and political risk insurance programs, which are complemented by comprehensive pre-investment services and implemented on a self-sustaining basis.

President Clinton has set trade and investment as a significant priority for American foreign policy in the post-Cold war era. In unveiling his blueprint for American competitiveness in the global economy on February 26, 1993, the President challenged all Americans to "*promote the steady expansion of growth in the developing world -- not only because it's in our interest, but because it will help them as well. These nations are a rapidly expanding market for our products. Some three million American jobs flow from exports to the developing world.*"

With the need to increase America's commerce with foreign markets and the rapidly changing political conditions of today's world, OPIC's risk management programs have never been more important. As private sector-led development becomes a key tool in America's foreign assistance program for the post-Cold War era, OPIC is well positioned to play a leadership role in the implementation of the Administration's agenda for improving U.S. competitiveness.

This role will not be new to OPIC. OPIC already has been a vital component of the "new wave" of foreign assistance initiated in recent years to target specific regions. For example, in conjunction with launching and implementing the Support for East European Democracy

("SEED") Act, OPIC participation has been integral in promoting privatization and market-oriented economic reforms in Eastern and Central Europe. To date OPIC has backed over $800 million worth of private investment in this region and helped "jump start" trade and investment between the U.S. and the SEED countries. OPIC is now playing a similar role as U.S. investors investigate the emerging market economies of the former Soviet Union. OPIC brings this commitment to market-driven foreign assistance not only to its activities in Eastern Europe and the former Soviet Union, but also to its programs throughout the developing world.

Let me now review how OPIC carries out its mandates, the initiatives it has undertaken to strengthen its capabilities and our FY 1992 performance.

OPIC'S Mission and Programs

OPIC was established by statute in 1969, confirming American recognition of the value of a self-sustaining agency that both promotes economic growth in developing countries by encouraging U.S. private investment in those countries, and simultaneously builds U.S. economic strength by promoting U.S. exports and jobs here at home.

U.S. recognition of the value of such a program goes back much further. U.S. government sponsorship of programs that are now housed at OPIC began in 1948 with the Marshall Plan. In the immediate post-War period, Western Europe needed American support to rebuild its democratic and market institutions. That region at that time also held the greatest potential growth opportunities for U.S. businesses.

To complement the public sector assistance extended through the Marshall Plan, the American Government established an investment insurance program to help U.S. firms overcome their reluctance to invest in Europe's risky post-War business environment. This program not only

helped to stimulate the private investment needed to rebuild Western Europe, but it also helped ensure that U.S. firms held a strong position there during the European boom years of the 1950's and 1960's. The investment insurance program was an important component of U.S. foreign and economic policy towards Europe in the post-War period.

Today, the United States faces similarly historic challenges and opportunities. The collapse of the Soviet empire has occurred at the same time that democratization and market economic reforms are occurring in dozens of countries in other parts of the globe. Many developing nations in Latin America, Africa, and Asia -- areas in which OPIC has been active for over 20 years -- are struggling to nurture developing political and economic freedoms and thereby give their people the framework in which to prosper. As in post-World War II Western Europe, much is at stake now for the United States in the success of market-led development around the world.

Also as in the post-War period, the contribution of American private capital to the consolidation of democracy and free markets abroad is limited only by the rate at which new business opportunities can be developed in these emerging democracies, and by the availability of tools to manage the risks inherent in developing them prudently. OPIC assistance in helping U.S. firms identify, finance, and insure sound business opportunities is often critical to their participation in the economic recovery of these nations. By helping U.S. firms manage the political risks associated with investment in these countries, OPIC allows them to focus on the commercial viability of potential investments, and to let the market drive their decision-making.

OPIC achieves its mission through three principal programs. First, its finance program provides capital for long-term investment through direct loans and loan guaranties. OPIC's direct loan program is reserved exclusively to support U.S. small business.

Second. OPIC **insures private U.S. investments** against a broad range of political risks including expropriation, currency inconvertibility and political violence. Finally, OPIC provides a variety of **pre-investment services** that can assist U.S. businesses to obtain the critical information and guidance needed to put together an overseas investment project.

In providing this assistance, OPIC requires that the projects not negatively impact the American economy. As a result, OPIC-assisted projects provide significant benefits for the U.S. by expanding markets for American-made goods and services, increasing exports, creating new jobs and opening access to new resources. (It is important to note that while other agencies like the World Bank and its affiliate, the International Finance Corporation, provide some similar services, they are free to provide assistance without regard to the impact on the U.S. economy.)

Host country development effects are important to OPIC as well. OPIC-assisted projects help alleviate two of the most pressing problems faced by developing countries -- a chronic shortage of foreign exchange to pay for critical imports and foreign debt service, and the widespread unemployment and underemployment of their people.

In carrying out its mission today OPIC operates at no net cost to the taxpayer. Created in 1969 with seed funding of $106 million, all of which has long since been returned to the U.S. Treasury, OPIC's capital and reserves now stand at more than $1.8 billion, representing an excellent return on the taxpayers' original investment and the Congress' original commitment. At the same time, OPIC has a strong financial base to support its activities. In FY 1992 OPIC posted a record net profit of $159.9 million. OPIC also paid a dividend of $17.073 million to the U.S. Treasury. This is the same amount OPIC received as appropriated funds in FY 1992 as a result of credit reform. OPIC is proud to offer such a substantial return to the American people while fulfilling its developmental mandate and strengthening U.S. competitiveness in the global marketplace.

FY 1992 Performance / Accomplishments

Overall, in FY 1992 OPIC helped American companies complete 118 separate finance and insurance projects, creating $8 billion of economic development -- the highest level attained in OPIC's history. Thirty-one percent of the year's projects involved the participation of U.S. small business. In total, these projects will support 24,173 person-years of U.S. employment, producing more than $3 billion in new U.S.-manufactured goods and services for export over a five-year period, consisting of initial procurement of U.S. goods and services valued at $1.5 billion, plus operational procurement from U.S. sources valued at $1.6 billion during the first five years of project operations. When all financial flows are taken into account, the projects are estimated to result in a positive U.S. balance of payments effect of $2.2 billion.

OPIC's assistance to U.S. investors often leverages more than an equal amount of investment from other sources. For example, of the $8 billion in total investment resulting from OPIC's FY 1992 insurance and finance projects, $3.4 billion (or 42 percent) represents investment by U.S. companies. $1.9 billion comes from third countries, $2.3 billion from host countries, and the balance, more than $400 million, comes from multilateral development institutions.

The number of countries eligible for OPIC's services and programs continued to increase dramatically during FY 1992. By the end of the year, OPIC was operating its programs in 140 countries around the world, representing the highest number of eligible countries in its history. Eighteen countries have been added to this list in the past two years, including all of the Newly Independent States of the former Soviet Union, except Azerbaijan.

OPIC's FY 1992 projects will also provide, in the aggregate, significant economic and social benefits for developing host countries. They will generate approximately 47,345 jobs, one of the highest levels of host country job creation for any single fiscal year in OPIC's history. In

addition, host countries will realize net foreign exchange savings of $128 million per year and net government revenues of $546 million per year during the first five years of project operation.

Let me briefly summarize other FY 1992 highlights of OPIC programs and initiatives.

__The Newly Independent States ("NIS")__

U.S. investor interest in the emerging market economies of the former Soviet Union has been building at a rapid rate since January 1, 1992. We have been inundated with new inquiries concerning OPIC finance and insurance programs in those countries. Not surprisingly, OPIC activities in the region have increased steadily since commencing operations there less than one year ago. We consider our efforts in this region to be among the most important and challenging tasks ever undertaken by OPIC.

In our most significant action to date in Russia, President Clinton announced at the recent U.S.-Russia Summit in Vancouver with President Yeltsin that OPIC will provide $150 million worth of assistance to Conoco, Inc., to support a major oil development and production project critical to the Russian energy sector. This will be the first new oil field to be developed by a U.S.-Russian joint venture.

- *__RUSSIA__ OPIC will provide a $50 million loan guaranty and $100 million in investment insurance coverage for Conoco's "Polar Lights" oil development and production project. Polar Lights is a joint venture project between Conoco, one of the ten largest petroleum companies in the U.S., and Arkhangelskgeologia, a government enterprise existing under the State Committee of Geology of Russia. Conoco has been involved in the purchase and trade of Russian oil and related products since 1984. The Polar Lights project, financed and insured under existing legislative authority, is OPIC's first loan guaranty and the largest amount of insurance coverage issued to date in Russia.*

  In addition to the generation of a significant amount of critically needed capital, creation of more than 800 Russian jobs, transfer of urgently needed technical skills and provision of important environmental improvements through the introduction of new technologies, the project is expected to create U.S. exports of $100 million, thereby generating an estimated 180 U.S. jobs.

OPIC, with its emphasis on the role of the private sector and the development of market-based economies to underpin democratization in the region, is a key component of the U.S. assistance program for the NIS. As a result of the dramatic changes taking place in the former Soviet Union, the U.S. moved quickly to make OPIC programs available to facilitate American investment in the region. Since April 1992, OPIC has signed operating agreements with all of the former Soviet republics: Russia, Ukraine, Armenia, Kyrghyzstan, Kazakhstan, Belarus, Moldova, Georgia, Turkmenistan, Tajikistan, Azerbaijan and Uzbekistan. OPIC programs were already operational in Estonia, Latvia and Lithuania.

OPIC's resources require careful management in order to keep up with the explosion of U.S. interest in this vast region. Our insurance program, which insures new investment only, requires that investors file a written registration with OPIC prior to making an investment. A review of registrations filed provides a sense of the enormous interest among U.S. investors in pursuing projects in the former Soviet Union. Russian projects represent the majority of such registrations. To date, OPIC has registered over 250 potential insurance projects in Russia, totaling approximately $22 billion of proposed investment, or more than a quarter of its registrations worldwide. Significant interest has also been demonstrated in projects located in Kazakhstan and the Ukraine. The registration figures for all of the former Soviet Union (excluding the three Baltic nations) are approximately 400 projects totaling $28 billion. While only a fraction of registered projects can be expected to go forward, these numbers are indicative of the enormous interest of U.S. investors in the region, relative to OPIC's experience elsewhere in the world.

The OPIC finance program has a current pipeline in the region of 50 projects representing potential loan demand of $1 billion. Inquiries have been received concerning projects as small as $750,000 to projects as large as $8 billion. Most of the interest to date has been in minerals and energy, telecommunications, manufacturing, agriculture, forestry, fishing and consumer goods.

To date, OPIC has received 25 specific applications for financing. Some of these are of marginal quality, from investors seeking a grant or highly subsidized loan. (OPIC provides neither.) A number of others have not yet been consummated due to changes in government regulations or in the composition or authority of the proposed local partners.

Let me give you some examples of other types of NIS projects OPIC supported in FY 1992:

- *RUSSIA* *OPIC insured Ingersoll Rand's equity investment in the "Instrum-Rand" joint stock company located in Nizhny Novgorod for the production of power tools that will be used primarily by local producers of automobiles. Improving the quality of Russia's manufacturing base is critical for the success and transition of the Russian economy. The project will generate over $13 million in exports of U.S. goods and services during the first five years of project operations.*

- *RUSSIA* *OPIC also provided an insurance commitment to Anderman/Smith Overseas, Inc., for its equity contribution to the Chernogorskoye oil and gas development joint enterprise in Western Siberia. American investment in Russia's vast natural resources generates badly needed hard currency for the Russian economy and facilitates the export of U.S. goods and services that will be used to revive Russian productive capacity. The project will generate $137 million in U.S. exports over the first five years.*

As a complement to its traditional project finance, investment insurance, and investor services programs, and in support of U.S. government-wide efforts to support democratization and economic reforms in the Soviet Union, OPIC has developed and implemented a number of special initiatives. For example, in December 1992 OPIC sponsored a conference highlighting investment opportunities in the health industry in the Caucasus and Central Asia. This highly successful conference attracted over 100 American business executives to Washington to meet with business and government leaders from Armenia, Georgia, Kazakhstan, Krygyzstan, Moldova and Uzbekistan. And in March 1993 OPIC hosted a "reverse mission" to concentrate on business opportunities for U.S. companies in the Tomsk and Chelyabinsk regions of Russia, formerly a Soviet defense industry center.

Activities such as these are intended to help U.S. companies gain a foothold in these new emerging markets while supporting the important U.S. foreign policy objective of aggressively supporting defense conversion activities in this region.

Central and Eastern Europe

Since expanding its programs to Central and Eastern Europe three years ago, OPIC, with its emphasis on the role of the private sector and the development of market-based economies, has become a particularly effective component of the U.S. government's assistance plan for this region.

As these nations continue their dramatic economic transformation through efforts to dismantle and replace state-controlled economic systems with free markets, OPIC's risk management programs are an important vehicle for mobilizing American capital and technology. More than 20% of OPIC's total FY 1992 investment portfolio represents projects in Central and Eastern Europe.

- *POLAND OPIC provided a $2.7 million direct loan to a U.S.-Polish joint venture, Lodom, to construct and operate a cold storage and distribution facility in Szczecin, a major port city in Poland. By increasing the availability of cold storage, this project will have a positive impact on the development of Poland's food distribution and its agricultural sector. In addition to OPIC, the European Bank for Reconstruction and Development ("EBRD") and the U.S. Export-Import Bank are participating in the project financing. OPIC is also collaborating on this project with the Polish-American Enterprise Fund, a co-sponsor of the project company.*

- *POLAND OPIC insured the investment of a U.S. firm, Ameritech, in Polska Telefonia Komorkowa, a joint venture created to develop and operate a cellular telephone network in Poland. The project will generate U.S. exports in excess of $51 million during its first five years of operations and result in a positive U.S. balance of payments effect of $61.5 million over this same period.*

- *HUNGARY A U.S.-Hungarian joint venture to construct and operate a high grade carbon black manufacturing plant was assisted by a $24.5 million OPIC investment guaranty. The EBRD is also participating in the project financing. The project will apply state-of-the-art production techniques that will render it one of the most environmentally sound producers of this chemical in the world. The venture represents a major step in the development of Hungary's industrial infrastructure. OPIC's guaranty supports an American company seeking to establish a presence in Eastern Europe, and as a result of this project approximately $13 million in U.S. goods will be procured.*

Africa

The significant resources and experience OPIC can contribute to African development have never been more important. This is because for the first time since most of Africa became independent, the private sector is at the forefront of development strategies throughout the continent. From Sierra Leone to Uganda, African governments have begun to free prices, open markets, liberalize investment codes, and initiate privatization programs -- all necessary actions to free up their productive capacity and lay the groundwork for economic growth.

OPIC has responded to the positive policy changes in Africa by deepening its commitment to the region, with impressive results. OPIC has directly contributed to a significant amount of U.S. investment in Africa over the last several years. In FY 1992 we supported 22 African projects, more than double the number assisted in the previous year.

- *SIERRA LEONE The expansion and modernization of an existing rutile mining and processing operation in Sierra Leone was assisted by a $15 million OPIC investment guaranty. In expanding the mining operation, which is the largest economic enterprise in the country, the employment of approximately 2,000 local workers will be secured. A considerable amount of capital equipment will be procured from the United States. In addition to OPIC, other development agencies involved in the project include the U.S. Export-Import Bank, the International Finance Corporation, DEG (Germany) and the Commonwealth Development Corporation (Great Britain).*

- *GHANA An Africa Growth Fund $500,000 equity investment in Fidelity Resources, a holding company that owns a vehicle distributorship, will result in U.S. exports in excess of $3 million during the first five years of project operations. The project allows the Ghanaian company significantly to increase its inventory of Chrysler and Jeep vehicles, and supports the efforts of General Motors Corporation to expand its export markets. In addition, related joint venture agreements with U.S. tire, tool and spare parts manufacturers will enable the distributorship to service its American-made products better and compete more effectively with its Japanese and European counterparts.*

The Americas

In Latin America, where economic reform has recently accelerated, OPIC issued aggregate insurance coverage in excess of $1.4 billion in FY 1992. Of the 37 projects in the region

supported by OPIC's investment insurance, almost half were in Argentina, Chile, Colombia and Venezuela, where recent reform initiatives have created extensive commercial opportunities and favorable investment climates.

The finance program's FY 1992 activity in this region was characterized by an increasing participation in highly developmental privatization projects. Several projects supported by OPIC direct loans and investment guaranties in sectors ranging from telecommunications to tourism will result in significant private sector involvement in industries traditionally dominated by state-owned enterprises.

- *__COLOMBIA__ In Colombia, a $35 million OPIC loan guaranty and substantial OPIC insurance will support K&M Engineering and Consulting Corporation and Chase Manhattan Bank investments in the construction and operation of a 90-megawatt natural gas-fired, steam injection electric power plant. The project will procure $73 million in goods and services from American companies during the first five years of operations. Structured under the "Build-Own-Operate-Transfer" financial model, the project will bring significant private sector ownership to a sector usually characterized by government control.*
- *__VENEZUELA__ To help privatize, expand, and modernize the Venezuelan national telephone system, OPIC insured a portion of GTE's equity investment in Ven World Telecom C.A. In addition to upgrading the country's telecommunications infrastructure, the project is expected to maintain its 20,000 existing employees and create nearly 5,000 new jobs within the Venezuelan economy. Significant benefits to the U.S. economy will also result, including the procurement of operational inputs from American manufacturers totaling approximately $740 million during the first five years of project operations.*

<u>Support for the Environment</u>

The environment is an increasingly important component of development strategies around the world and of OPIC programs.

OPIC has been very active in encouraging investment that promotes sustainable development, and in undertaking initiatives to foster more of this type of investment. For example, OPIC is involved in developing a privately-owned and managed International Environmental Investment Fund. The fund, to be privately owned but backed by OPIC loan guaranties, will invest in new or

expanding businesses in developing countries that use natural resources on a sustainable basis or that otherwise practice sound environmental management. While initial efforts to capitalize this fund have been disappointing, OPIC is currently in the process of restructuring it and is confident that the restructured fund will demonstrate that carefully selected investments can earn a respectable market rate of return and contribute positively to the overall environment.

- ***BRAZIL*** *A $1 million FY 1992 direct loan underscores OPIC's commitment to environmentally sound investment. The loan supports the participation of a U.S. small business in the modernization of an export-grade tropical hardwood veneer and plywood manufacturing facility on the Amazon River in Brazil. The project brings exceptional developmental benefits that address long-term environmental and social needs in the Amazon region. For example, the project company selectively harvests the timber (as opposed to clear-cutting, which leaves large swaths of open land), while maintaining a seedling nursery and tree plantation. It also provides employment for local people who would otherwise likely be engaged in clearing the forest for short-term non-productive uses. This project represents the successful blend of business and environmental interests, and it has been hailed as an example of a well-managed approach to sustainable development.*

FY 1994 Budget Request

For fiscal year 1994, the Administration has requested $17.928 million in budget authority for loan subsidies and credit-related administrative expenses. Of the total, $9.8 million is for subsidy to support approximately $400 million in direct and guaranteed loans, and $8.128 million is to fund credit-related administrative expenses. These amounts are identical to the total appropriated for OPIC in FY 1993. Although OPIC was established as a self-sustaining agency, since the Federal Credit Reform Act of 1990, OPIC has received appropriations for purposes of consistency with other agencies affected by Credit Reform. While not required, last year OPIC paid a dividend of $17.073 million to the U.S. Treasury, the amount of the FY 1992 appropriation. This reflects OPIC's ongoing ability to operate as a self-sustaining agency at no net cost to U.S. taxpayers.

OPIC has consistently committed its entire lending authority in recent years. Demand is strongest for large projects, using guaranteed loans, which maximize OPIC's ability to leverage its limited authority with private sector funds.

For its small business direct loan program, OPIC requests FY 1994 subsidy budget authority of $2.937 million which, at the currently estimated average subsidy rate of 14.18 percent, will support almost $22 million of direct loans. For its guaranteed loan program, OPIC requests $6.863 million in subsidy budget authority which, assuming an average 1.8 percent subsidy, will support $375 million in loan guaranties. (The actual amount of finance activity may vary from this forecast due to actual subsidy costs which are determined on a project-by-project basis.) The difference in the subsidy cost of the two credit programs is largely attributable to the fact that OPIC's direct loan program is limited to small business sponsors. These sponsors do not always have the depth of human and financial resources required to weather the extremely difficult operating environments in which OPIC projects are located and therefore are generally a higher credit risk.

OPIC believes the projected subsidy costs to be prudent, but it should be noted that the costs are based on estimates of future costs and are deliberately conservative. OPIC continues to place a very strong emphasis on credit quality.

Status Report on Regional Growth Funds

Let me take this opportunity to briefly update the Subcommittee on recent activities involving OPIC's "family of funds," in which OPIC is working with the U.S. private sector to develop sources of capital to target investment in new enterprises, the expansion of existing businesses, and the privatization of government-owned enterprises in specific regions.

The first such initiative was the **Africa Growth Fund ("AGF")**, which was launched in 1989. Targeting 42 countries in sub-Saharan Africa, the AGF is capitalized with investments by a group of U.S. corporations, with additional capital backed by a $20 million OPIC investment guaranty. To date, the AGF has committed equity funding of approximately $13 million in seven investment projects, including a hotel in Botswana, a coffee processing plant and a gold mine in the Ivory Coast, a bottle manufacturing facility in Kenya, a provider of compressed oxygen and nitrogen to hospitals and industries in Cameroon, and a merchant bank and a trucking company, both in Ghana. The AGF is close to making commitments to several other ventures and expects to be fully invested by the end of this calendar year.

The **Asia Pacific Growth Fund ("APGF")**, launched in October 1992, has now completed the task of raising its $75 million in capital and has begun the business of investing in new and expanding Asian companies.

OPIC is currently working with a U.S. venture capital firm to establish an investment fund for Poland. This new initiative, called **Poland Partners**, will invest in companies that demonstrate significant growth potential, thereby supporting Poland's efforts to develop an efficient, profitable private sector. The primary objective of Poland Partners will be to seek investments that will utilize equipment manufactured in the United States and employ the services of U.S. enterprises. Capitalization of this newest of OPIC supported private investment funds is targeted at $50 million.

As you may recall, we have also been working for some time to develop a new investment fund for Israel. OPIC has recently selected a fund manager for an **Israel Growth Fund**, to which we expect to commit financing in FY 1993. This fund, with capitalization in the $50-75 million range, will invest in privately owned companies operating in various business sectors and industries in Israel. It will support Israel's program to transform a state-owned business sector to private ownership and efficient performance. We hope to bring this project to our Board of

Directors in the next few weeks in order to avoid any delay in the commencement of marketing the fund.

Also planned is the **Americas Growth Fund**, which will focus on the developing countries of Central and South America. Two investment funds targeting the **NIS** -- one of $2 million for small businesses and one of $50 million for larger businesses -- are also being considered.

Each business in which these funds invest must have an economic connection with the United States and receives appropriate review in regard to U.S. effects, the environment and other OPIC requirements. The U.S. connection may be in the form of a joint venture with an American company or an agreement for the supply of U.S. equipment, components, management or technology.

[Information about these funds is provided solely for the purpose of informing the Subcommittee with regard to OPIC's operations. and is not intended to assist in any solicitations of investments in the funds.]

II. REQUEST FOR NEW AUTHORITY

Turning to other issues raised in your April 26 letter, you asked whether OPIC is seeking any new statutory authority. As you know, the Jobs Though Exports Act of 1992 reauthorized OPIC programs for two years, through September 30, 1994. At the present time there is no Administration request for new statutory authority for OPIC.

As Secretary of State Christopher has indicated to the Congress, the Administration has made foreign assistance reform a top priority and is actively engaged in a comprehensive review of all programs. The new management at OPIC will also play an important role in reviewing OPIC operations. During a time of budget stringency at home, OPIC expects to play an important role as a facility that promotes private sector participation in the service of our foreign policy

objectives and operates on a self-sustaining basis. We contemplate close cooperation with the Congress as new proposals are developed and new authorities requested.

III. IMPACT ON OPIC OF SECTION 599 OF THE 1992 FOREIGN OPERATIONS APPROPRIATIONS ACT

The thrust of section 599 of the 1993 Foreign Operations Appropriations Act (and related Title VIII of the Jobs Though Exports Act) is to prevent U.S. job loss and protect worker rights while carrying out U.S. foreign assistance activities. These are issues to which OPIC is already sensitive and in which it has considerable positive experience.

Even before this new provision was enacted, OPIC screened out projects that might have a negative impact on U.S. employment or the host country environment and was subject to statutory requirements relating to protection of internationally recognized worker rights. In fact, OPIC policies were cited during Congressional debate as the model for what the new restrictions were intended to achieve.

Nevertheless. OPIC has taken a careful and deliberate approach to implementation of section 599, and is confident that in bringing its programs into full compliance with the new provisions, it has enhanced its ability to guard against supporting projects that could be detrimental to U.S. economic interests or to international worker rights.

While many of OPIC's programs operate without using funds appropriated in annual appropriations acts, OPIC has applied the restrictions of section 599 to all its programs. This means that all finance and insurance projects are currently screened to insure compliance with the provisions of subsections (a), (b) and (c) of section 599, and that investment mission participants

and other users of OPIC's pre-investment services are informed that OPIC can only support projects that conform with the provisions of section 599.

With regard to the effect of the new provisions on OPIC's ability to carry out its programs, it is important to note as mentioned above that unlike other foreign assistance programs, OPIC programs have long operated under restrictions contained in the OPIC sections of the Foreign Assistance Act that are similar to the new restrictions in subsection 599(a) and (c). Thus, implementation of those provisions has required, in the case of subsection (a), no change in existing procedures, and in the case of subsection (c), only some minor changes in our existing project review procedures. Subsection (b), however, creates a new restriction for OPIC, and therefore has the potential to prevent OPIC from assisting some projects with favorable U.S. effects that might have been permissible under OPIC's previous statutory restrictions and policies.

Specifically, subsection (a) prohibits agencies from providing financial incentives to induce a U.S. business to relocate outside the United States if such relocation is likely to cause a reduction in the number of jobs in the United States. OPIC has since 1974 been subject to a prohibition on assisting any project where the investor is likely significantly to reduce the number of its employees in the United States (22 U.S.C. 2191(k)(1)). In implementing that provision, OPIC has applied a standard of no reduction in U.S. employment rather than the less stringent, no significant reduction standards required by the language of that provision. Thus subsection (a) will have no additional impact on OPIC's ability to carry out its foreign assistance programs.

Subsection (b), the prohibition on assistance for the purpose of establishing or developing export processing zones without a Presidential certification that the project will cause no U.S. job loss, is a new provision with no counterpart in OPIC's prior legislation. However, the purpose of the provision is one that OPIC already addresses, inasmuch as it is designed to prevent support for

projects that would cause U.S. job loss. As noted above, U.S. job loss is a matter that OPIC already screens for in every project it considers. The requirement to obtain a Presidential certification in order to support an export processing zone project is a new requirement but, as a practical matter, does not alter the basis on which OPIC would make a determination that such projects would have no negative effect on U.S. jobs.

Subsection (c) prohibits support for projects that will contribute to violations of internationally recognized worker rights. Throughout the last decade, OPIC has implemented measures to protect worker rights. Since 1985 OPIC's statute has required that it operate only in countries that are "taking steps to adopt and implement internationally recognized worker rights" (22 U.S.C. 2191a(a)(1)). OPIC also includes in its contracts the requirement that investors not take actions to prevent employees of the project from exercising their rights of free association and collective bargaining, and that they observe applicable worker rights laws. This contractual language was developed in consultation with Congress and organized labor, and was included in OPIC contracts beginning in 1989. In October, 1992, OPIC's authorizing legislation was amended to require inclusion of the now standard contract language in all OPIC contracts. (P.L. 102-549 §102(a).)

In this context, the new provision contained in subsection 599(c) of the Appropriations Act will affect OPIC's operations only in those countries that are "taking steps to adopt and implement internationally recognized worker rights," but where local laws are nevertheless insufficient to prevent investors who comply with them from contributing to violations of internationally recognized worker rights.

In such cases, OPIC will require that investors undertake to provide project workers with working conditions that meet internationally recognized standards. To the extent that investors are not willing to enter into such undertakings, the new provision will prohibit OPIC from

supporting their projects. However, we anticipate that a more common outcome in cases where such undertakings are required will be to reflect in the project documentation, as a condition for OPIC support, a level of working conditions that exceeds that available as a matter of law in the host country.

In sum, OPIC takes the provisions of Section 599 very seriously and has made every effort to implement them with care and deliberation and in a way that is fully consistent with the intent of Congress.

IV. HOW OPIC PROTECTS U.S. JOBS AND INDUSTRIES

You asked, Mr. Chairman, what OPIC is doing to ensure that no U.S. jobs are exported overseas. Protection of U.S. jobs is an integral part of everything we do at OPIC and I am pleased you have raised what is a very important issue.

OPIC is committed not to export jobs and not to support runaway plants. We are aware certain types of overseas investment can cost U.S. jobs. Therefore, every potential OPIC project undergoes a rigorous analysis of its effect on U.S. employment and existing businesses. In fact, OPIC imposes a higher standard on itself than that required by law.

Since 1974, OPIC has been forbidden by law to support any project that significantly reduces the number of U.S. employees of the particular investor by substituting overseas facilities for domestic production. Further, OPIC is forbidden to support any project that is likely to have an adverse effect on the U.S. economy or U.S. employment and conducts a detailed sectoral analysis to screen out such projects. In light of OPIC's successful history of promoting development without supporting runaway plants, similar restrictions were imposed on other foreign assistance

programs as part of Section 801 of the Jobs Through Exports Act of 1992 and Section 599 of the Foreign Operations Appropriations Bill.

As an example of OPIC's commitment to protection of U.S. jobs, during the last three fiscal years OPIC formally denied assistance to 13 projects due to potential adverse U.S. effects, and literally dozens of other project sponsors have abandoned efforts to obtain OPIC support after informal counseling regarding OPIC standards.

V. OPIC COMMENTS ON H.R. 4996

Finally, you asked for comments on H.R. 4996 as passed last year. On August 5, 1992, as part of its consideration of the OPIC 1992 reauthorization request, the House of Representatives, led by this subcommittee, passed a comprehensive rewrite of OPIC's statutory authority. The bill, which passed the House by a wide margin, was a major initiative to improve, update and remove obsolete provisions of OPIC's 20 year old statute as well as other important titles. Although this proposal for OPIC was not enacted into law in the last Congress, it does provide an excellent starting point for review of OPIC's operating authority.

While the OPIC title of H.R. 4996 was supported by the previous Administration with few exceptions, the new Administration and the new management at OPIC look forward to an opportunity for a thoughtful and careful review of this proposal and the related policy issues consistent with this Administration's focus on more effective and streamlined policy implementation. Close cooperation with this Subcommittee will be important to achieve these goals.

CONCLUSION

The opportunity to help the U.S. economy and help developing countries has never been greater. OPIC offers a unique combination of financing and insurance packages for American business which provide flexibility in raising capital and mitigate the risks associated with investment in developing countries and new market economies. As the U.S. reviews its approach to foreign assistance in the post-Cold War era, we at OPIC look forward to using our unique role and innovative capabilities to advance our national interests.

We thank you for your past support and look forward to working with the Congress to better assist U.S business.

Thank you. I will be pleased to respond to your questions.

STATEMENT

OF
WILLIAM D. TRAMMELL
VICE PRESIDENT--PROJECT FINANCE
FLUOR DANIEL, INC.

ON
CAPITAL PROJECT ASSISTANCE

BEFORE THE
SUBCOMMITTEE ON ECONOMIC POLICY, TRADE AND ENVIRONMENT
COMMITTEE ON FOREIGN AFFAIRS
U.S. HOUSE OF REPRESENTATIVES

MAY 4, 1993

Mr. Chairman and members of the subcommittee, my name is William Trammell. I am Vice President, Project Finance at Fluor Daniel. I also chair the Export Finance Working Group at the National Association of Manufacturers.

I am pleased to be here today to discuss the issue of greater support for capital projects under the U.S. foreign aid program. We believe this is a very important issue for this Subcommittee to examine not only in terms of the developmental needs of the countries receiving U.S. aid but also from the standpoint of U.S. export interests.

In your letter of invitation, you essentially asked me to focus on the latter topic (e.g., U.S. exports), which is what I will do. I do want to emphasize, however, that increased capital project support has significant implications for the development needs of countries throughout Asia, Africa and Latin America, especially in light of the rapid urbanization taking place in many parts of the world.

Turning to the importance of this issue from the standpoint of U.S. exports, NAM has recently published a report, *Export Financing: A Key to U.S. Export Success*, which helps illustrate the importance to the U.S. economy, and to U.S. workers of winning the competition for major capital projects overseas. I am submitting a copy of this report for the record.

The competition for capital projects in the developing world is fierce and export financing can be the critical factor in successfully competing for such projects. The amount of potential business involved here is enormous and the U.S. has been complacently watching this business go to our oversees competitors.

I would call the Subcommittee's attention to the estimate in NAM's report (page 22) that $12 billion in financed telecommunications systems will be required by developing countries this year. A new report by the Agency for International Development (AID) estimates that the demand for electrical power equipment and service in South East Asia alone will reach $20 billion by the mid-1990s. The U.S. is not well positioned to take advantage of these export opportunities.

U.S. firms today rely on various commercial and governmental sources of financing for these projects. The Eximbank, of course, is the most important source in terms of governmental support. Unlike most other industrial nations, the U.S. foreign aid program is not a major source of capital project support. Under AID, such support has dramatically declined over the last decade.

Other major industrial nations offer aid funding for capital projects. This highly concessional funding is usually linked to the procurement of goods and services from the donor nation--in other words, tied aid. In 1992, the major industrial nations through the Organization for Economic Cooperation and Development (OECD) concluded a tied aid agreement intended to restrict trade distorting practices in this area. It is important to realize that this agreement has not made the problem disappear, or alleviated the need for a clear U.S. strategy in this area to increase support for developmentally sound capital projects. A strategy is needed and that strategy should be twofold.

First it must aim at enforcing the OECD agreement and making sure that future aid projects meet the new rules. The Eximbank has made a commitment to use its tied aid "war chest" for policing the agreement. Early, aggressive enforcement action is necessary for maintaining the OECD's new rules on tied aid.

Second, and this is what is most relevant for this Subcommittee, the U.S. Government must develop a coherent plan to support capital projects that are still allowed under the OECD agreement. Examples of such projects would include subway and other transportation systems, power plants, telecommunication, and environmental cleanup. I hardly need to point out to this Subcommittee that such projects directly meet the developmental needs of many countries that now receive U.S. foreign aid.

The support of developmentally sound capital projects, which require significant exportable content, would be an obvious area for the involvement of bilateral foreign aid programs of the

AID. AID, however, has not been able to organize itself for such involvement. It has virtually abandoned capital project assistance. In the mid-1980s, almost 20 percent of AID's budget supported capital projects. Today, that figure is about 5 percent.

In Italy and Japan, almost 50 percent of their foreign aid goes to capital project support. In Germany and the United Kingdom about 30 percent is used for this purpose. These nations clearly see capital project support as important for the developmental needs of the recipient nation but also in their own best commercial interests.

A real case can be made, I believe, that the decline in capital project support has been a mistake from a developmental standpoint. It certainly has been a mistake in terms of U.S. economic interests. The time has come to fix this problem by 1) increasing support for developmentally sound capital projects under the U.S. foreign aid program and 2) shifting the administration of such a program out of AID to the Trade Development Agency (TDA).

TDA is a lean, efficient organization which is capable of taking on this assignment. TDA has a well established reputation of leveraging a small amount of funds to the great advantage of U.S. exports. It could do the same in the capital project area. We would like to see TDA authority expanded so that it would have the flexibility to support developmentally sound capital projects.

Let me try to tie this discussion together with a specific example of a project in Lithuania which is currently under development. This project is the building of an oil terminal and a pipeline linking this terminal to an existing refinery.

Traditionally, Lithuania received crude oil from Russia, used its refinery to process this oil, and then used the refined products to satisfy needs for transportation fuels, heating oil, and fuel to generate power. This winter, supplies of crude oil were unavailable from Russia and due to the lack of a terminal, there was no way to import oil from other sources. Thus, many Lithuanians had little heat or hot water (a product of power generation) this winter.

Lithuania cannot borrow significant amounts of money from Eximbank or commercial banks to build this terminal. For at least part of the project, it is going to need development assistance. This would be exactly the type of capital project which a TDA with expanded authority could usefully support. We would be meeting the critical infrastructure needs of a nation attempting to move toward a market economy and a democratic political system. We also would be generating U.S. exports and supporting American jobs.

In regard to the last point, I would call the Subcommittee's attention to the fact that capital projects generate exports not only from the initial sales but also from follow-on business in services and spare parts which require little or no on-going bilateral financing support. Over the 15-20 year operating life of a project, this follow-on business can amount to 10–15 percent of the original sales price <u>each year</u> and is an enormously important, although largely unrecognized, aspect of U.S. export performance.

NAM believes that TDA has the established ability to manage a capital projects program effectively and that such a program would significantly benefit not only the needs of developing nations receiving U.S. foreign aid but also U.S. export potential. We would like to see a total

program of $1 billion for capital project support. And we would like to see this Subcommittee provide TDA with expanded and flexible authority to take on this assignment.

· Whatever money is used for capital project assistance should come out of existing foreign aid funding, notably in the cash transfer area, and not involve new budget expenditures. No funding for basic human needs programs should be used for capital project support. In other words, let's start substituting capital project support for the checks now sent to foreign governments under our cash transfer program. This will do a lot more for economic development in the countries receiving our aid and it sure will do more to help support U.S. jobs by filling in gaps in the current export support system in this country.

Thank you, Mr. Chairman, for this opportunity to address the Subcommittee and I will be glad to answer any questions.

Testimony of

John Hardy, Jr.
Director, Corporate Development and Finance
Brown & Root, Inc.

on behalf of

The Coalition for Employment through Exports (CEE)

before the

Subcommittee on Economic Policy, Trade & Environment
Committee on Foreign Affairs

U. S. House of Representatives
Washington, DC

May 4, 1993

Mr. Chairman and Members of the Subcommittee: My name is John Hardy and I am Director of Corporate Development and Finance for Brown & Root, Inc. Brown & Root is one of the largest international engineering and construction companies in the world. A wholly owned subsidiary of the Halliburton Co., Brown & Root employs over 50,000 employees and last year had revenues of approximately $3.8 billion, serving diverse industrial companies and government clients in approximately 60 countries around the world.

During the last twelve years, I have worked in close association with our bilateral aid program: six years as the Deputy Director of the Trade and Development Program (now Trade and Development Agency), during which time I was also the Acting Director for two years, and over two years in the Agency for International Development (A.I.D.), before joining Brown & Root four years ago.

I am here today on behalf of the Coalition for Employment through Exports (CEE). A broad-based coalition of American exporters, labor unions, and state governors, CEE was organized in 1981 to promote U.S. exports and employment (members listed on Attachment A). Since that time, CEE has pioneered efforts to increase awareness of this linkage and to promote competitive export finance programs to help U.S. companies compete in international markets.

The Coalition recognizes your efforts, Mr. Chairman, and those of the Subcommittee, on the Jobs Through Exports Act of 1992. Under your leadership, the bill was introduced and subsequently signed into law late last year. The legislation addresses the importance of exports and their benefits to the U.S. economy and employment. It expands the Trade and Development Agency (TDA), reauthorizes the Overseas Private Investment Corporation (OPIC), and directs A.I.D. to set up a capital projects program. CEE was a strong advocate of your bill and we commend you for your foresight and persistence in the enactment of the legislation.

The Coalition appreciates this opportunity to appear before the Subcommittee to discuss reforms in the U.S. foreign economic assistance program and would like to concentrate on the role U.S. economic and commercial interests should play in a revitalized foreign aid program.

CEE believes that there is a critical gap in the U.S. foreign assistance program - the absence of any program for financing major capital projects in the developing world. In every other major foreign aid program, capital projects represent a major component of the assistance provided - improving infrastructure of the developing country and providing benefits to the donor country in terms of increased exports and employment. Such a program would create export

opportunities for U.S. firms by enabling them to compete on even terms with capital project funding provided by foreign governments. **The Coalition supports the establishment of a capital projects program as a "second window" in the Trade and Development Agency.** Under TDA's guidance, this program could balance sound developmental objectives and simultaneously promote and support high value-added jobs in the United States.

The Gap in U.S. Foreign Economic Assistance Programs

Foreign aid in the post World War II era has played a vital and meaningful role in the conduct of American foreign policy. It has been a reflection of the generosity, concern and humanitarian spirit of the American people, in reaching out to the poorer and less advantaged people around the world, to assist them in their efforts to improve their economic well being.

Foreign aid throughout this period has also been a significant element in the maintenance of U.S. security considerations. It has often served as a tangible reflection of U.S. commitments, cementing relationships promoted for political and military reasons.

What has not been reflected in the U.S. foreign aid program, contrary to the aid program of virtually every other developed country, is any recognition that domestic economic and commercial well being and foreign economic assistance objectives are mutually supportive.

The most important contribution the U.S. can make to economic progress in developing countries lies in our own growth and economic vitality. A strong U.S. economy generates

increased markets for developing country exports. The greater the trading relationship the U.S. has with countries that are developing, the more robust their economies will be and the more quickly they will grow.

What has also not been reflected in our foreign aid program is a recognition that aid funds are uniquely able to assist both sides of this economic equation - strengthening high value jobs and export competitiveness in the United States while supporting critical infrastructure projects necessary to the economic expansion of so many developing countries. For our export competitors, the promotion of business and development through their bilateral development assistance programs is inextricably tied.

Our economic assistance program has minimized the commercial benefits accruing to the U.S. economy from critical developing country markets. Moreover, our foreign aid program has specifically neglected U.S. commercial interests in addressing the physical infrastructure needs of developing countries. The result is that U.S. firms have been disadvantaged by our competitors using their government's aid programs to capture important projects and protect high value jobs which fifteen years ago would have been American.

The premises underlying our aid program have been and are out of balance. U.S. economic assistance must become part of the U.S. response to changing economic interests around the world. The context for foreign aid is changing and concerns about U.S. economic competitiveness are mounting. An American foreign assistance program which will compete on

an equal footing for major capital projects in the developing world will better assist and support a strong foreign policy and maintain a prominent position for the U.S. internationally.

The U.S. cannot afford a foreign assistance program which so readily neglects U.S. economic interests. U.S. economic assistance must be restructured to give appropriate weight to U.S. economic interests as well as balance important humanitarian and security considerations. The other two considerations need not be compromised in order that U.S. commercial interests are recognized and supported.

Need for Infrastructure Funding in our Foreign Economic Assistance Program

There are two key reasons why we need infrastructure funding in our foreign assistance program. The first reason is that it would respond to important developmental needs which are not now being addressed by the existing foreign economic assistance program. Adequate power, telecommunications systems, rail systems, airports and road systems, water supply and sewerage systems, and the like, are all in critical need in the developing world. The absence of basic physical infrastructure is constraining the capability of these countries to grow. They cannot develop if they lack power with which to manufacture goods and keep the lights on in the workplace, or if buyers cannot communicate with sellers. They cannot export if they lack airfields and ports to physically move their goods out of the country.

There has been a steady decrease in the allocation of economic assistance funds to infrastructure projects over the past decade - from $1 billion in 1984 (20 percent of the

A.I.D. budget) to the current anticipated level of $360 million in 1993 (5 percent), despite some increases in the budget.

A.I.D. has consistently sought to minimize the use of economic assistance funds for infrastructure projects, restricting such funding essentially to Egypt, where Economic Support Funds (ESF) are so plentiful that they cannot be obligated without resort to the funding of a few such projects. Even though infrastructure project funding is permissible in our aid program, the "New Directions" mandate of the early 1970's has led our bilateral aid program away from capital projects. A.I.D. no longer considers infrastructure projects a development priority.

Even in Eastern Europe, where the developmental needs of the region particularly lend themselves to infrastructure project lending, A.I.D. cannot bring itself to embrace the concept. Eastern Europe is not the developing world. It is a region in a 40 year time warp, with countries as sophisticated in the 1940's as their Western European counterparts, economically frozen in time, with no new infrastructure or technological development since the Communists took control. The radical political transformation of the region opened up not only their political systems, but also their economies, instantly creating brand new markets which in turn were quickly to be shaped and captured by the first firms that aggressively assisted these countries.

If ever there was an opportunity for an assistance program led by the business community, this was it. Yet, the U.S. aid program has virtually ignored major infrastructure projects and instead generated numerous small scale initiatives - studies, short term technical assistance, small pilot

projects, etc. While most are helpful to these countries, the overall impact is disjointed, politically of little visibility and commercially of relatively modest benefit to U.S. firms. Rather than working with and enlisting the support of the business community, A.I.D. has generated its programs in isolation, according to its own definition of what assistance these countries need.

Our trade competitors have been more aggressive in taking steps to provide economic assistance that helps the recipient countries while additionally helping their firms shape these new markets so that they can receive maximum benefit from these new commercial opportunities. For too many American firms, their foreign competition is utilizing their country's aid to establish themselves in these new markets and in so doing, establish standards and equipment specifications for these markets which will leave American firms with longstanding competitive disadvantages.

But A.I.D.'s narrow definition of what constitutes development is not followed by other developed countries. In every other major aid program, capital projects represent a major component of the assistance provided. For example, in 1991, well over half the Japanese and Italian aid programs supported capital projects. That same year, over one third of the German and U.K. programs were devoted to infrastructure projects. To pursue these projects, these programs prominently feature capital projects funds which aggressively pursue major projects where they have both a positive developmental impact on the host country as well as represent significant export markets for the firms from the country providing the assistance.

As a recent study of this issue funded by A.I.D. stated, "...there are fundamental differences between the strategies of the U.S. government and other major industrialized countries. ...Only the United States lacks a project finance facility devoted to promoting business and development objectives -- a factor which has important ramifications not only for the developing countries in which A.I.D. works, but also for U.S. competitiveness and long-term trade benefits."[1] It is this "gap" in our foreign assistance programs that disadvantage U.S. business overseas and we urge this Subcommittee to work to rectify this problem.

The existence of this gap in our aid program, as made clear in Attachment B, underscores how difficult it is for A.I.D. to be responsive to U.S. commercial interests. A.I.D. cannot make this transformation itself. Instead, what is necessary is legislation enunciating a more balanced set of premises underlying our approach to economic assistance - enabling the U.S. to provide significant and meaningful assistance to the developing world while promoting high value U.S. jobs and U.S. competitiveness overseas.

A second reason for including significant infrastructure funding in the U.S. economic assistance program is that it serves the national economic interest of the country - first, by promoting the growth of strong trading relationships between ourselves and developing countries, and secondly, by promoting and supporting high value-added jobs in the United States.

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[1] "The Feasibility of Using Credit to Finance Capital Projects," Coopers & Lybrand, Private Enterprise Development Support Project II, A.I.D. p. 24., May 11, 1992. (See Attachment B)

The need for infrastructure expansion and upgrade is particularly acute among those more advanced developing countries which are important commercial and strategic partners of the United States. Many of these countries indeed prefer assistance in the form of capital equipment and "high-tech" technical assistance, as A.I.D. itself has admitted in testimony before the Congress.[2]

Our government needs to promote the expansion of trading relationships with these countries. Instead, A.I.D. "graduates" them, just as their economies are beginning to take off. We as a country, are reducing the breadth of our economic and commercial relationship with these countries precisely at the time when their markets are creating more opportunities for Americans to benefit commercially and when their economic well being makes them more important to the United States strategically.

Our trade competitors recognize the value of these trading relationships and use their economic assistance programs to promote their trading interests. Seventy percent of the Japanese aid program is concentrated in Asia, where all of their most important developing country markets are located. By contrast, one percent or less of U.S. economic assistance funding goes to our top developing country markets (Mexico, Korea. Brazil, Venezuela and China). And of our top eight foreign aid recipients in FY 1991, (each having combined ESF and Development Assistance of approximately $100 million or more), only one Israel - was among our top 25 trading partners (24th) for that year.

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[2] Statement of Reginald J Brown, Assistant Administrator for Program and Policy Coordination, A I D. before the Foreign Operations Subcommittee of the Appropriations Committee, U.S House of Representatives, March 21, 1990.

The contrast between the country allocation priorities of our economic assistance program and those of other countries is striking. It underscores the absolute lack of consideration given to enhancing our trading relationships through our foreign economic assistance program - for either our own economic benefit or that of our trading partners - even though it is in our overall strategic interest to strengthen these ties. Instead of merely severing our assistance relationship as these countries reach a certain per capita growth, we need to be restructuring our economic relations so that they are of greater mutual benefit - and assistance in infrastructure development is an important element in that process.

The other way in which significant infrastructure funding would serve the national economic interest of the country is by supporting high value-added American jobs. All of our trading competitors use their aid programs to promote their economic interests. Why does the United States insist on a foreign aid program that minimizes the benefit to American workers when our trading competitors have recognized that they can help their own workers and their own exporters while simultaneously helping developing countries build needed infrastructure?

We should not; in fact, we should insist on the opposite. We should have an economic assistance program that helps U.S. workers and provides jobs while assisting the developing world. Doing well in these markets while providing these important developmental benefits would significantly increase exports of capital equipment and services, create new high-value jobs domestically, and contribute to a reduction in the trade deficit.

Over the last 15 years, the developing world, particularly the middle income developing countries, has come to represent a very significant export market for the United States. More fundamentally, the middle income developing countries, with growth rates averaging several times higher than those of our domestic market, are the frontline markets for critical high tech industries - such as power generation, the telecommunications sector and those industries in much of the transportation sector. **Conceptually, the firms that establish themselves in these markets generate the revenues with which to continue to make technological improvements which, in turn, give them an advantage in competing for opportunities in the developed country markets.**

U.S. dominance in these sectors in the international marketplace, so evident in the 1950's, 1960's and early 1970's, has steadily eroded since then, due to the inability of American firms to compete successfully in these developing country markets. This has led to a significant loss in U.S. market share in these industries, and, in turn, to a loss of much of the U.S.'s technological superiority.

U.S. firms have had such difficulty largely because of the "uneven playing field" phenomenon. Our foreign competitors have been able to draw upon the support of their governments to create subsidized financing, mixing funds from their aid programs at concessional rates with export credit financing from their version of the Export-Import Bank ("mixed credits"), through tied aid and other government programs such as free or heavily subsidized feasibility studies and conceptual engineering, to provide preferred positions for their firms. These efforts have been

highly successful and placed American firms throughout this period at a significant competitive disadvantage.

While efforts have been made to bring these practices under control, two points should be noted. First, where governments are actively prepared to support the commercial interests of their own country's firms, recognizing the beneficial impact on employment and their balance of trade, new mechanisms will constantly be developed to continue to provide an advantage to their firms. This is unfortunate news for American firms whose government has been unwilling to grasp the gravity of the situation and proactively support U.S. firms overseas.

Secondly, no effort has yet been made to arrive at any international consensus regarding the appropriate purposes to which economic assistance funding should be allocated. Accordingly, the unwillingness of the United States to allocate funds to support infrastructure projects has placed American firms at a considerable disadvantage, since economic assistance funding serves as a continuing means by which governments of our foreign competitors continue to advantage their firms. A restructured and reformed economic assistance program, in which the interests of U.S. workers is taken into account, would serve to significantly redress this imbalance, and allow American firms to once again compete on the basis of quality and technological prowess.

Two other considerations support the restructuring of U. S. economic assistance. Capital projects funding can be established without sacrificing either humanitarian assistance or critical security needs. A significant portion of our foreign aid is provided in the form of

cash transfers, checks written on the U.S. Treasury for which there is no, or negligible, return to the U.S. economy. Why cannot we offer, instead of checks, capital projects or critical elements of those projects as our trading competitors do? The security objective of financial assistance to the country remains the same, merely the form changes.

What we must recognize is that economic, humanitarian and strategic considerations are compatible. They need not be in conflict as appears to be the case now, but can coexist and even be mutually supporting if there is the recognition that each of these objectives is a priority.

A second consideration supporting reform of the aid program is that a foreign assistance program which is based on new realities and is perceived to benefit U.S. firms and American jobs as it supports developmental objectives overseas, will generate increased budgetary support which will arrest the erosion in the overall foreign assistance budget. It has become quite evident over the last decade that as the American people have seen fewer benefits to the U.S. economy from our foreign aid program, the support for these programs has dissipated. Support for the aid program has become harder to assemble in Congress, because there is a recognition that the present program, the program developed over the last two decades, is fundamentally out of balance with the economic reality confronted by an overwhelming number of Americans.

As Americans we would like to believe that the U.S. can and should continue to support the world's poor, continue to feed and assist those who suffer so much around the world. But we

are also well aware that Americans are struggling to make ends meet, that our standard of living is not secure, that our international competitiveness is in doubt, and that we can no longer support an aid program without seeing more benefit return to the U.S. economy. A reformed economic assistance program, more sensitive to the generation of American jobs and our international competitiveness, will attract the support necessary for its continued expansion.

A.I.D. itself admits that over the last decade the portion of the bilateral aid program devoted to capital projects has steadily decreased; with that decrease, there has been a steady loss of engineering capability and of the professionals experienced with capital projects. Consequently, A.I.D. now lacks the base of skilled and experienced people to technically implement a capital projects program.

More fundamentally, A.I.D. is now an agency culturally attuned to developing and implementing the Basic Human Needs mandate that has characterized U.S. foreign assistance since the 1970's. Its professionals are competent and hardworking, and there is a high level of commitment on their part to the humanitarian nature of those programs. Unfortunately, though, there also exists in A.I.D. a visceral reluctance to work with the business community, as if infrastructure projects somehow taint the economic assistance effort. This attitude, so prevalent among the career professionals, makes it extremely difficult to see how A.I.D., even if given the mandate, could enthusiastically carry out such a function.

CEE Recommendations

The Coalition believes it is time for a new approach and strongly urges Congress to provide infrastructure funding through a second window in the Trade and Development Agency (TDA) which already has a dual mandate of supporting development <u>and</u> promoting American exports. Currently TDA funds feasibility studies which for projects which are likely to result in U.S. exports. A second window at TDA would fund engineering design services, equipment purchases, and project implementation. An agency responsible for implementing part of the U.S. foreign economic assistance program, TDA is lean, highly effective, and has proven its responsiveness, flexibility and willingness to work with the business community in a balanced effort to extend development assistance while promoting the competitiveness of U.S. firms in major overseas markets.

CEE believes that an infrastructure program in the Trade and Development Agency makes sense, that it will be more efficient in its use of government funds, and that it will better achieve the developmental and commercial objectives we seek.

The Coalition recognizes that this would be a **significant enlargement of TDA's mandate.** We believe that the Agency has been well-managed and proven itself in balancing developmental and U.S. commercial interests. We recognize further that **staffing in TDA will have to be increased,** but believe TDA can undertake this increased responsibility without losing its responsiveness and flexibility.

In light of the severely constrained budgetary situation, the business community recognizes that even under a reformed aid program funds allocated to infrastructure projects cannot match funding directed to that purpose by some of our export competitors, most notably the Japanese. **CEE proposes a total budget for TDA for both windows of $1 billion.** To ensure that TDA has maximum flexibility, we believe there should be no earmarks. However, for purposes of illustration, the **$1 billion level might be allocated as follows: $150 million for feasibility studies, $150 million for engineering design services, and $700 million for capital projects.** With funding of this magnitude devoted to infrastructure projects, significant results can be achieved if used to leverage other available funding to support U.S. participation in these projects.

It should not be the practice of this funding, as has been traditional in A.I.D., to finance a project entirely from U.S. assistance funds. **Rather, TDA should leverage the funds for developmentally sound projects to maximize their benefit for U.S. exports,** both in terms of assembling the financing for the project so that it can go forward and in terms of maximizing the U.S. goods and services employed in the project. **Moreover, the program needs to be demand driven like the existing TDA program, rather than selected by the government agency, as is often the case with A.I.D.**

Let me give one example. Several years ago A.I.D. contributed $190 million to a $800 million power project in Egypt. With those funds a prominent U.S. firm was selected as project manager. Their presence encouraged the Egyptians to award other parts of the project to U.S. firms with the result that the project generated about $500 million in U.S. exports. As

importantly, the American project manager also played a critical role in assisting the Egyptian government assemble the rest of the financing package so that the project itself could go forward. So certainly infrastructure funding, properly managed, can generate many times in U.S. exports the amount of the assistance funds allocated to these projects. And as importantly, this funding can assist the financial packaging of these developmental projects so that they can move from the drawing board to providing the benefits so needed by the developing world.

Mr. Chairman, you are to be congratulated on undertaking this effort to consider reforms to the U.S. foreign aid program. It has long been an important element in American foreign policy, but one that is increasingly out of balance. To underscore one fundamental point - economic, humanitarian and strategic considerations are indeed compatible. They form the basis of every other significant aid program but ours - to the severe detriment of U.S. international economic interests. We can construct an economic assistance program that redresses the present imbalance and assists U.S. workers and high value-added jobs in the United States as we assist our new trading partners to develop. Reallocation of resources to allow for increased infrastructure funding will be a major step in that direction. On behalf of CEE, thank you for the opportunity to testify before you today.

Attachment A: List of CEE Members

Attachment B: "Project Finance Cycle," The Feasibility of Using Credit to Finance Capital Projects," Coopers & Lybrand, Private Enterprise Development Support Project II, A.I.D., p. 24.

PREPARED STATEMENT OF

LAWRENCE YANOVITCH,

THE MICROENTERPRISE COALITION

Before the

HOUSE SUBCOMMITTEE ON ECONOMIC POLICY,

TRADE & ENVIRONMENT

4 MAY 1993

Mr. Chairman, members of the Committee, we are grateful for the invitation you extended to the Microenterprise Coalition to testify today and for the strong support you have given to microenterprise programs over the years.

I am the Director of Government Programs for FINCA where I oversee AID sponsored projects in five Latin American Countries. I am also the Co-chair of the Microenterprise Coalition which is comprised of 23 Private Voluntary Organizations (PVOs). The Coalition recently formed to promote microenterprise as a major component of the new Administration's foreign aid program. The Coalition has provided a forum to resolve many of the differences between PVOs which came to the fore in previous hearings held by this Committee. This represents an important achievement because almost all of the major U.S. PVOs which are active in microenterprise participate in the Coalition. The members include agencies which specialize in microenterprise as well as some of the most important leaders in the fields of community development, health, child survival, relief, and refugee assistance.

The common message of this broad range of institutions is that microenterprise can be a powerful tool which the U.S. can use to fight poverty in the developing world. In a recent letter to President Clinton, the Coalition outlined an agenda for creating a Microenterprise Development Fund within the foreign assistance program. For the record, I would like to submit a copy of the letter to the President which includes a list of the Coalition members. The Coalition is now working with the Clinton Administration's Task Force on Foreign Aid Reform, and they are receptive to the concept of the Fund.

The purpose of the Microenterprise Development Fund would be to catalyze the growth of sustainable financial and technical support institutions which serve the self-employed poor in the developing world. These institutions would help to democratize the financial sectors in recipient countries, opening them to millions of new savers and entrepreneurs. The resources of the Fund would be leveraged with those of U.S. PVOs, other donor nations, multi-lateral development banks, private investors, local governments and local communities. For every $100 dollars disbursed from the Fund, recipient institutions could generate an average of more than $500 in loans and $100 in local savings over five years.

In my testimony today, I will first provide a rationale for a major U.S. initiative in microenterprise. I will then review the current AID program. I will conclude with recommendations for how the Microenterprise Development Fund might function.

Rationale

Microenterprise is a cost effective approach to foreign assistance which advances both the humanitarian and economic interests of the U.S. There is no greater threat to global security and prosperity than the explosive growth of poverty in the world today. Developing nations sinking under the weight of impoverished populations cannot become viable trading partners. Environmental degradation, civil conflict, disease and overpopulation are all rooted in poverty. The world's population is expected to double in the next 45 years. If corrective measures are not taken, more than 90% of these people will be born into poor families in the developing world.

The poor in the developing world face a daunting array of obstacles to breaking out of poverty. The vast majority does not have access to stable employment in the industrial sector and must therefore turn to self-employment in the informal sector or the "survival economy". Microenterprises, or the small businesses of the poor, account for more than 50% of urban employment in many developing countries. Indeed, the self-employed poor provide a critical low-cost source for creating jobs for other members of their communities. In Latin America, current studies indicate that the average cost per job created is under $800 in the informal sector whereas the cost in the industrial sector ranges from $20,000-$30,000.

Yet, the self-employed poor do not compete on a level playing field. In the developing world, larger private and state industries dominate the access to markets, raw materials and capital. Cultural and political conditions often prevent the poor, particularly women, from pursuing their business opportunities.

One of the most salient problems microenterprises face is a lack of access to capital at commercial rates. Since banking systems in developing countries do not provide services to the poor, microentrepreneurs must turn to informal credit sources or "moneylenders" for capital. The interest rates that they must pay are many times greater than the local commercial rate. A street vendor in Managua, Nairobi or New Delhi will typically pay 10% interest *per day* on a loan from a moneylender. The result is that large portions of the income earned by microentrepreneurs are siphoned off by these middlemen, who help to keep poor producers trapped in poverty.

U.S. PVOs, credit unions and local non-governmental organizations (NGOs) have taken the lead in filling the vacuum left by the banking sector. These organizations have created specialized lending institutions which use credit delivery and savings systems that are tailored to the needs of the poor. They often couple these services with assistance in marketing, business skills training and technology transfer. Many of these institutions are structured to sustain their operations through interest income. Since the programs draw on strong community participation in the organization of the lending systems, the repayment rates are very high (95-99%).

These specialized lending institutions have often succeeded in substantially increasing the income of their borrowers, enabling them to improve the quality of life of their families. In one AID poverty lending program in El Salvador, 90% of surveyed borrowers doubled their weekly food purchases after one year of program participation. Borrowers are more receptive to health, family planning, environmental and other social messages once they have greater financial security.

Since microenterprise programs are based on productive investment instead of charity, the resources are recycled to assist more and more poor families. In the El Salvador program, the $1.3 million portfolio will rotate in five years to generate at least $3 million in local savings and $18,000,000 in loans. The most successful microenterprise programs also use a variety of financial instruments to access commercial sector funds. Hence, the capacity of these organizations to rotate resources and leverage capital from formal financial institutions multiplies the original investment many times over.

Microenterprise development thus offers a cost-effective grassroots strategy which the U.S. can use in order to reduce poverty and foster greater economic pluralism in the developing world. Microenterprise is also gaining increasing public attention as one form of foreign aid which merits U.S. support. In the words of one Senator, "This is the kind of foreign aid that we can sell to the American people".

Current AID Program

Since AID has been focused during the last twelve years on large-scale private sector development, it has not placed a priority on microenterprise. As a result, the number of borrowers which AID's microenterprise program reaches remains relatively small. In its FY 1991 report to Congress, AID indicated that it made 67,000 loans with its entire microenterprise portfolio. PRODEM, a leading microenterprise institution in Bolivia, made over 52,000 loans in that one country during the same period.

Moreover, the AID program has had difficulty in meeting Congressional directives to allocate a significant portion of its portfolio to loans below $300. In FY 91, AID made some progress and generated 39,000 loans at an average size of $128. These loans, however, represent only 12% of the capital in AID's portfolio. AID also reported that women received only 35% of its loan capital which is a further indication that the program is not adequately reaching the severely poor.

Allowing experienced U.S. PVOs, credit unions and local NGOs to increase their role in AID's microenterprise program would be one means for improving its effectiveness and outreach to the poor. Where multi-lateral development banks, governments, and commercial financial institutions have failed, these organizations have led the way in developing innovative systems for successfully lending to the poor. They also have the capacity to expand their programs significantly if additional funds are made available to them.

During the previous Administration, microenterprise institutions had difficulty in accessing funding from AID missions. As missions sought to focus their efforts and meet the requirements of other Congressionally earmarked programs, they became reluctant to support new initiatives such as microenterprise. Moreover, Section 599, a recent amendment to the FY93 Foreign Appropriations Act, has had a further chilling effect on the interest of AID missions in microenterprise. Section 599 stipulates that all AID programs must comply with international labor laws. Since microenterprises operate in the unregulated informal sector, they generally cannot adhere to industrial labor standards. The result is that some AID missions are categorically deciding not to finance microenterprise programs.

The centrally managed program of the Office of Private Voluntary Cooperation (AID/FVA/PVC) has, however, proven to be an effective alternative for developing the microenterprise capacity of PVOs. Many PVOs have used these resources to establish an extensive grassroots outreach capability by working through networks of local NGOs and community associations. This program offers a model for how the proposed Microenterprise Development Fund might operate.

In the new foreign assistance program, U.S. PVOs, credit unions and local NGOs should play a major role in AID's microenterprise activities. These organizations are not without their institutional shortcomings, however, and they will need to be critically appraised and strengthened in order to increase their microenterprise capacity and effectiveness. They should be held accountable to strict standards of performance and cost-efficiency.

Functional bureaus, within AID/Washington, also need to have greater leverage over local AID missions. They need to be able to promote effective interventions, such as microenterprise, with the collaboration of the missions. Finally, AID/Washington needs more power to negotiate with multi-lateral development banks so that the banks complement AID's institutional strengthening activities with lines of credit for microenterprise program.

Recommendations

Over the next two decades, the U.S. should seek to lead the international development community in promoting a global network of financial and technical assistance institutions which specialize in responding to the needs of the self-employed poor. AID can be instrumental in this effort in two ways. First, it can finance part of the costs of establishing and strengthening these institutions. Second, it can provide them with capital through a variety of instruments: grants, soft loans, loan guarantees, equity investments and stabilization funds. After three-five years of AID assistance, these institutions should be able to self-finance their operating costs through interest income and meet their loan capital requirements from savings and commercial lines of credit.

Microenterprise Development Fund

In order to catalyze this process, the Coalition proposes that a centrally managed Microenterprise Development Fund be created within the foreign assistance program. The purpose of the Microenterprise Development Fund would be to promote the growth of a network of financial and technical assistance institutions which specialize in providing services to a broad range of low income clients. The Fund would be primarily channeled through U.S. PVOs, credit unions, local NGOs and other grassroots organizations which have demonstrated a capacity to develop locally sustainable microenterprise service institutions.

Since the Fund would be centrally managed, it would reduce the costs of intermediation of the AID missions and make the development of the microenterprise program more expedient. At the same time, AID missions could also draw on the Fund to supplement resources that they dedicate to local microenterprise programs.

The Fund would be managed by AID/Washington and be comprised of three components: institutional development, capital and research/evaluation. No more than 5% of the total value of the Fund would be apportioned to research and evaluation. Based on programmatic requirements, AID would allocate the remaining value of the Fund between the institutional development and capital components.

Based on a survey of the programming capacity of its members, the Coalition would recommend that an annual average of $130 million be appropriated through the Fund over the next four years for U.S. PVOs and credit unions operating microenterprise programs in the developing world. This would allow these organizations to generate over $1 billion in microenterprise loans.

This requested funding level for U.S. PVOs and credit unions represents 80% of AID's total projected expenditures in microenterprise for FY93. The Fund could also finance the microenterprise initiatives of AID missions that do not necessarily involve U.S. PVOs and credit unions. The Coalition is not, however, in a position to recommend required funding levels for those mission activities.

Institutional Development Component

The success of microenterprise programs hinges on the establishment of sound institutions which can provide effective credit and technical services. AID would thus use the Fund to finance the institutional development activities of PVOs, credit unions, local NGOs and other grassroots organizations involved in developing institutions which service microenterprise. This component would also finance required training, technical assistance and other complimentary services.

Recipient organizations do not need to be solely dedicated to microenterprise in order to access the Fund. AID would place a priority, however, on those organizations that are capable of developing local institutions which can become self-financing and reach large numbers of clients.

Capital Component

The capital component of the Fund would be equally divided in two parts. The first part would be allocated to poverty lending or those microenterprise programs which directly target the severely poor. The second would be allocated to all other types of microenterprise programs. This distribution of capital would reflect the two tier structure of FY93 legislation for microenterprise passed by both the House and Senate. At least 60% of the borrowers which receive loans through the Fund would be women.

The Fund would use a variety of financial instruments as described above. Capital made available through grants would require a matching component from the recipient organization in the form of loans, grants or savings generated from non-AID sources. AID would also seek to facilitate negotiations between these institutions and multi-lateral development banks to obtain additional lines of credit.

Research and Evaluation

A small portion of the Fund would be used to evaluate program performance, document lessons learned and research how the state-of-the-art in microenterprise can be improved. AID would use a set of clearly defined indicators to measure the overall performance of local and external support organizations.

Since small loan sizes are a good indicator that programs are reaching the severely poor, evaluations would need to demonstrate that loan capital for poverty lending is dedicated to programs where initial loans are no more than $150 and no loan exceeds $300. Institutions whose portfolios include both poverty lending and microenterprise loans would be required to demonstrate that the poverty lending portion of their portfolio meets these requirements.

Other evaluation indicators would include performance criteria such as employment generation, repayment rates, mobilization of local savings, self-sustainability, number of borrowers reached, and participation of women. For example, the commitment of local communities to their programs could be demonstrated through the generation of at least $20 in local savings per year for every $100 in loan capital which the institution accesses from the Fund. As a measure of their effectiveness in rotating and leveraging capital resources, recipient institutions could be expected to generate $500 in loans over five years for every $100 in institutional development support or loan capital which they received from the Fund.

Concluding Remarks

The Cold War may be over, but the achievement of true peace has hardly begun. Never before has the world seen so many of its families trapped in severe poverty or so many of its children threatened by malnutrition. There can never be lasting security in the world if large portions of the population are marginalized from participating in the development of the global economy. Microenterprise offers the new Administration and Congress a proven tool which you can use in the U.S. foreign assistance program to stimulate the growth of prosperity and pluralism in the world.

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STATEMENT OF

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INTERNATIONAL PROGRAM

NATURAL RESOURCES DEFENSE COUNCIL

BEFORE THE

SUBCOMMITTEE ON ECONOMIC POLICY, TRADE AND ENVIRONMENT

COMMITTEE ON FOREIGN AFFAIRS

U.S. HOUSE OF REPRESENTATIVES

MAY 4, 1993

I. INTRODUCTION

Thank you, Mr. Chairman, for this opportunity to share with your subcommittee the views of the Natural Resources Defense Council (NRDC) on the environmental performance of the Agency for International Development (AID). The topic is of critical importance. Unsustainable development and its resulting degradation of the environment threatens the lives and livelihoods of billions in the developing world, central and eastern Europe, and the former Soviet Union. Environmental ills in these nations will have cumulative impacts on the global environment and economy which could jeopardize the long-term security of the United States. Humanitarian, economic, and security interests compel the U.S. to reassert its leadership in support of environmentally sustainable development abroad.

AID, or a successor agency, should play a key role in this effort. Its current management woes notwithstanding, AID has responded more effectively to developing countries' environmental challenges over the years than any other development institution. Properly managed, AID can bring to bear a unique combination of technical expertise, political leverage, and accountability to both local and U.S. interests. NRDC strongly urges the Congress to work closely with the Administration to restore a strong, U.S. bilateral development assistance agency with a core mandate to promote sustainable development.

NRDC is a non-profit organization dedicated to protecting the environment, public health, and natural resources. We are supported by 170,000 members in the U.S. and abroad. For more than fifteen years, our International Program has worked to promote environmentally sustainable development by advocating strong environmental policies at AID and the multilateral development banks (MDBs), by pressing for international environmental agreements -- including the recent treaties on ozone depletion and global warming -- and by urging environmental reform of international trade agreements. We have also supported local environmental efforts by non-governmental organizations (NGOs) in Africa, Asia, Latin America, Central Europe, and the former Soviet Union. I joined NRDC in 1988 and direct our advocacy at the international development institutions and work closely with NGOs in Asia and Latin America on environmental and energy issues of local concern. I hold a bachelor's degree in economics and political science from Yale University.

II. THE NEED FOR A STRONG BILATERAL ENVIRONMENTAL PROGRAM

Environmental degradation harms the lives and livelihoods of billions every day. While the U.S. and other western nations now devote substantial resources to preventing this damage, much of the world cannot. In their pursuit of a better life -- and often mere subsistence -- growing populations in Africa, Asia, and Latin America, face polluted air and water, degraded lands, and depleted natural resources. These nations typically lack the financial and technical resources -- and often the political will -- to restore environmental quality and develop environmentally superior economic activities. They

also face a momentous challenge in providing food for their people in an environmentally sustainable maner.

In the former Soviet bloc, the toxic legacy of Soviet style industrialization includes high rates of cancer, respiratory diseases, and child mortality, low life expectancies, severely polluted air, rivers, and lakes, and dead and dying forests. Like the developing countries, these nations are struggling to address overwhelming environmental challenges with severely constrained budgets.

The impacts of environmental degradation in these countries transcend their national borders. Inefficient energy consumption and deforestation are major sources of "greenhouse gases" that, unmoderated, will disrupt the earth's climate. The former Soviet Union is presently the second largest source of greenhouse gas emissions; the developing world will likely account for the majority of emissions by the middle of the next century. More than half of the earth's living species are found in tropical ecosystems. The rapid destruction of natural habitats around the globe threatens the biological capital on which human health and wealth depend.

Long-term economic progress in these nations -- vital to the United States' export-dependent economy and to international political stability -- will depend on a clean environment, a biologically healthy natural resource base, and their ability feed their people through environmentally sustainable agriculture. It is in our immediate self-interest to support developing countries and the former Soviet bloc in making the transition to environmentally sustainable development.

This is a pledge that the United States has already made in agreeing to Agenda 21 at last year's Earth Summit and in signing treaties on ozone depletion, global warming, and -- as recently promised by President Clinton -- biological diversity. Our national interest and commitments are clear. This year, the Administration and Congress should work together to formulate an effective program for international cooperation on sustainable development.

A strong bilateral assistance program will be a critical. While multilateral efforts through the MDBs and U.N. agencies may offer a financial advantage in leveraging U.S. contributions, they lack the flexibility, accountability, and potential for experimentation with innovative approaches that bilateral programs offer. The MDBs are also not well structured to provide the critical services of local capacity building, training, and small project support for non-governmental organizations (NGOs) and small government agencies.[1]

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[1] For these reasons, NRDC and other environmental organizations are particularly concerned about the World Bank's aggressive efforts to promote the Global Environment Facility (GEF) as a "unitary fund" for the climate, biodiversity, and ozone conventions. Assistance in these areas,

(continued...)

The record attests to the importance of these characteristics. Since AID first adopted environmental regulations in the mid-1970s -- in response to public pressure brought by NRDC and others -- it has been the leader among development agencies in addressing environmental threats, including rapid population growth. Strong public and congressional interest led AID to launch programs to protect biodiversity and limit greenhouse gas emissions years before multilateral agreements on action could be reached. AID, responding again to clear public and congressional interest, continues to maintain one of the world's leading population programs. The flexibility and accountability of a bilateral program will continue to be critical in the future to allow rapid and innovative responses to urgent challenges.

The U.S. environmental assistance program should not be limited to a restructured AID. Other domestic agencies, including EPA, the Fish and Wildlife Service, and the Forest Service, can provide much needed expertise overseas. The federally funded development foundations, including the Inter-American Foundation, the African Development Foundation, and Appropriate Technology International, are often more capable than AID of supporting innovative, grass-roots sustainable development projects. Finally, our export promotion agencies -- the Commerce Department, the Export-Import Bank, OPIC, and the Trade and Development Agency -- should stimulate the application of cutting-edge U.S. environmental technologies and services abroad. These agencies must also ensure that their environmental regulations are consistently applied to all projects.

III. RESTRUCTURING THE AGENCY FOR INTERNATIONAL DEVELOPMENT

AID's current management problems and its consequent lack of direction and effectiveness are well known even to the casual observer. An editorial in last Friday's Washington Post cited over forty internal and external efforts undertaken in recent years -- including two Presidential commissions -- to understand and recommend remedies for the agency's failings. It is now clear that weak leadership combined with a proliferation of multiple, sometimes contradictory objectives, have severely crippled AID.

Equally clear, however, are the compelling U.S. interests in rehabilitating a strong development assistance agency. Ending poverty, protecting the environment, stabilizing population, and empowering people to better their own lives -- the core elements of "sustainable development" -- are critical to shaping a just, peaceful, and prosperous world. NRDC joins many other U.S. non-governmental and private voluntary

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[1](...continued)
particularly biodiversity, requires small grants, the involvement of local communities, and the carefully monitored use of innovative approaches -- services the World Bank and UNDP have not shown themselves capable of delivering. The U.S. should maintain a strong bilateral program to address these global environmental challenges and explore alternative multilateral arrangements to the GEF.

organizations in urging the Congress and the Administration to articulate the promotion of sustainable development as the central, overarching mission of a rehabilitated AID, or a successor agency.

Strong leadership -- backed by White House and Cabinet support -- is urgently needed at AID to carry out this mission by articulating a limited set of measurable objectives for the agency and reorganizing it effectively to address those challenges. NRDC was impressed last week by Brian Atwood's confirmation testimony which identified democracy and human rights, sustainable development, and environmental protection as leading goals for AID. Mr. Atwood has the right experience, interest, and political support to do the job effectively. We hope that the Senate will act quickly to confirm him. We are particularly encouraged by his earlier statements calling for a reorganization of the agency along functional lines to ensure superior performance in key areas, including environmental protection. As we describe below, AID's current structure has produced a scattershot approach to key environmental issues of international -- not to mention congressional -- concern.

The value of strong leadership cannot be overstated. For the past several years, I and my colleagues in the environmental community have watched AID become consumed by destructive in-fighting and turf conflicts -- even among its environmental staff. As I describe below, one of the new Administrator's first acts should be to create a central, senior-level position to impart direction and leadership to AID's environmental efforts.

A. AID's Current Environmental Program

In 1992, AID published an Environment Strategy that assesses the range of environmental threats the agency seeks to combat and describes its preferred methods of addressing them. The document identifies five categories of environmental problems:

- Loss of tropical forests and other critical habitats for biological diversity;
- Unsustainable agricultural practices;
- Environmentally unsound energy production and use;
- Urban and industrial pollution; and
- Degradation and depletion of water and coastal resources.

The strategy commits AID to promote environmentally sustainable development by (1) ensuring, through environmental review procedures, that all activities are "environmentally sound;" (2) integrating environmental considerations into all activities; and (3) supporting projects to protect the environment and conserve natural resources.

For the latter two categories, the strategy identifies three preferred approaches: (1) building human and institutional capacity and public awareness, (2) reforming environmentally unsound policies; and (3) encouraging private sector participation in environmentally sound activities.

In FY91 -- the most recent year with solid accounting -- AID officials estimate that the agency obligated some $663 million to address the five environmental problems listed above.[2] This level of effort -- if maintained in succeeding years -- would appear to satisfy congress's FY93 earmark of $650 million for environmental and energy activities. However, present data, while still incomplete, suggest that environmental obligations could fall below this level in FY93.

In NRDC's judgement the level of annual obligations -- while critical -- is less important than the quality of the environmental portfolio it represents. Unfortunately, the agency's present structure lacks the field expertise and central authority needed to guarantee a high-quality, well balanced program. AID country missions and their regional bureaus share primary responsibility for designing and implementing projects. Yet the missions employ shockingly few direct-hire, professionally trained environmental and energy staff. The regional bureaus' environmental units are also thinly staffed and spend much of their time enforcing the agency's environmental review procedures. The central Bureau for Research and Development -- home to much of AID's energy and environmental expertise -- is limited to supporting missions and regional bureaus on request. The only central authority to influence the overall portfolio rests with the Policy and Finance and Administration Directorates, which employ only a small handful of direct-hire environmental staff.

The new Environment Strategy reinforces these weaknesses by directing missions and regional bureaus to "focus" on a limited number of environmental threats for each country and region. These are to be (1) "significant constraints to development," (2) urgent problems that require immediate action, and (3) priorities that host countries are committed to address. While these are useful criteria, the resulting regional and mission "foci" in Latin America and Africa neglect significant and urgent issues -- energy efficiency, renewable energy, and pollution -- in which the missions and bureaus appear to have little expertise and, therefore, little interest.

As a result of AID's geographically based structure, its environmental "program" is little more than an aggregate of what individual missions, and in some cases regional bureaus, decide to undertake. It is also -- like other AID efforts -- heavily skewed by the political considerations underlying the Economic Support Fund and other "special initiatives."

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[2] This is an unofficial, unpublished, internal estimate.

The results -- while details are sketchy[3] -- are not very impressive. Of the $663 million claimed for the environment in FY91, nearly 40 percent went to one country -- Egypt -- largely for a few sanitation and electricity infrastructure projects. Geographically, the balance is spread fairly evenly among Africa, Asia, Latin America and the Caribbean, Central and Eastern Europe, and elsewhere in the Near East. Political considerations, however, have produced a diproportionately high level of funding for Central and Eastern Europe.

Substantively, outside of Egypt, "green" environmental activities -- tropical forests, biodiversity, and sustainable agriculture -- appear reasonably well funded.[4] However, "brown" environmental threats -- energy and pollution -- receive extremely little support. A number of AID environmental professionals have suggested that AID's portfolio lacks appropriate emphasis on pollution issues because most mission environmental staff have backgrounds in agriculture and natural resources -- few in energy and environmental sciences.

The lack of agency support for energy efficiency and renewable energy is particularly troubling, given the substantial contribution of energy production and use to national, regional, and global environmental threats. Outside of the Near East, energy efficiency and renewable energy obligations amounted only to some $54 million in FY91. A large energy efficiency effort in Central and Eastern Europe accounted for almost half of this. Elsewhere, energy activity -- apart from rural electrification -- is minimal and much of the energy efficiency and renewable energy activity that exists is a result of what could be described as "missionary" work by the R&D Bureau's Office of Energy and Infrastructure. Few missions and regional offices have energy efficiency or renewable energy professionals. As described above, Latin America and Africa excluded energy from their list of environmental "foci."

Urban and industrial pollution control and prevention projects are also quite limited, amounting to only $21 million outside of the Near East in FY91. Support is increasing, particularly in Asia and in Central and Eastern Europe, where urban and industrial pollution problems are particularly dire and widespread. Obligations outside the Near East may increase to slightly more than $50 million in FY93.

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[3] While AID has commissioned a review of its environmental funding by region and objective, neither AID nor any outside group has undertaken a comprehensive, detailed review of its projects. As a result, one can assess how well AID is targeting its funds by country and by issue, but not how well the agency is designing and managing its projects.

[4] Currently, however, there appears to be pressure within AID to exclude soil and water conservation and other sustainable agriculture projects from funding under the FY93 environmental earmark. Congress should instruct AID that sustainable agriculture projects aimed at improving natural resources management should qualify for funding under the earmark.

B. Issues of Special Interest to Congress

Congress has directed AID in recent years to place special emphasis on two global environmental challenges -- the loss of tropical forests and biodiversity and the threat of global warming. Population growth, a long-standing issue of congressional concern, is also a fundamental challenge to environmental sustainability. NRDC and other environmental organizations have joined in support of increased funding for, and more effective management of, AID's population program.

1. Tropical Forests and Biodiversity

The planet's natural diversity of species and ecosystems is quite literally the fabric upon which human life and prosperity depend. New technologies, particularly pharmaceuticals, are still derived regularly from wild plant and animal species. Genetic diversity within plant species allows for adaptation of agricultural crops to resist pests and disease. The U.S. agricultural industry, for example, relies on the existence of wild cultivars, often found in developing countries. Diverse ecosystems serve critical ecological functions, providing unique species habitats and regulating water systems and climate.

Humankind has a clear interest in reversing the rapid decline in species and ecosystems currently underway around the globe. Halting the destruction of tropical forests is particularly critical. These forests house more than half of the world's species, regulate local and global climate, and meet the daily subsistence needs of forest dwellers and surrounding communities. Agricultural settlement, forestry and other natural resource development, and fuelwood collection are currently destroying tropical forests at an annual rate of some 40-50 million acres.

Amendments to the Foreign Assistance Act in 1986 established a mandate for AID to support conservation of tropical forests and biological diversity. Since then, Congress has earmarked funds for biodiversity conservation in annual appropriations legislation. The biodiversity earmark for FY93 is $20 million.

AID reported to Congress last year that funding for tropical forest and biodiversity conservation reached $125 million and $72 million respectively in FY91, with an "overlap" of $36 million in dual-purpose projects.[5] FY91 capped four years of rapid growth in obligations in both areas, especially biodiversity. Since FY91, while data are still incomplete, internal AID estimates indicate that biodiversity funding grew in FY92 but may decrease sharply in FY93. Even so, funding levels are still expected to meet the

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[5] AID, Tropical Forests and Biological Diversity: USAID Report to Congress, 1990-1991. Washington, DC, May 1992.

congressional earmark. Tropical forestry obligations appear to have dropped dramatically in FY92 and may continue to fall in FY93.

Again, while funding levels are important, the real test of AID's tropical forest and biodiversity conservation program is the quality of its portfolio. Fortunately, the Africa, Asia, and Latin America and the Caribbean bureaus all have identified this area as a key focus and, consequently, their environmental professionals are closely involved in project design and oversight. The R&D Bureau's Office of Environment and Natural Resources also maintains sizable forestry and biodiversity projects that provide significant support to AID field missions. Particularly important is the Biodiversity Support Program, managed by a consortium of the World Wildlife Fund, the World Resources Institute, and the Nature Conservancy.

In general, AID has followed a positive trend in recent years of increasing support for the conservation efforts of international and local non-governmental organizations (NGOs) in all regions. NGOs are often superior agents of conservation as they combine technical expertise, personal dedication to environmental protection, administrative flexibility, and a sensitivity to needs of local communities. Congress should support AID's increasing willingness to work with NGOs, particularly in-country organizations.

In this regard, Congress should encourage AID to make greater efforts to help establish and fund in-country foundations or trust funds to support local conservation initiatives. Foundations or trusts can provide sustained, long-term funding in the small amounts typically needed for conservation and sustainable development projects. The focus of such entities need not necessarily be limited to tropical forests and biodiversity. They could support a range of efforts from sustainable agriculture, to energy efficiency, to non-governmental research and advocacy on environmental law and policy. The Enterprise for the Americas debt relief program offers a useful model in creating local-currency, environment and child survival trust funds, administered by national-level bodies with majority NGO representation. Another helpful model is the Foundation for the Philippine Environment, which received initial capitalization through a debt swap funded by AID. AID is now examining the feasibility of using the foundation or trust fund model to support environmental activities in Africa.

2. Global Warming Initiative

Human industrial and agricultural activity is emitting heat-trapping "greenhouse" gases into the atmosphere at rapidly rising levels that threaten to alter the planet's climate. The Intergovernmental Panel on Climate Change, a body of leading climate scientists, has concluded that global average temperatures could rise by 2-5 degrees celsius by 2050 if emissions continue to grow at current rates. Such a rapid change -- unmatched in human history -- would be accompanied by rising sea levels, increased coastal storms, changes in regional weather patterns and soil moisture, and "shifts" of whole ecosystems to higher latitudes. These changes would have significant impacts on

heavily populated coastal areas, agricultural production, human health, and wildlife populations.

The U.S. and other industrialized countries are primarily responsible for the present accumulation of greenhouse gases in the atmosphere. The release of carbon dioxide from fossil fuel combustion accounts for roughly half of all greenhouse gas emissions. As the world's most profligate energy consumer, the U.S. is responsible for some 25 percent of the greenhouse problem. The industrialized countries must therefore shoulder the bulk of the burden in dramatically reducing greenhouse gas emissions in the coming decades. President Clinton's recent commitment to seek a return to 1990 emissions levels by the year 2000 and to prepare a national plan that continues the downward trend in emissions is a helpful first step for the U.S. and an important signal to other countries of the need to act.

After the United States, the former Soviet Union is the world's second largest source of greenhouse gas emissions. Compared to the U.S., moreover, the former U.S.S.R.'s economy is extremely energy-intensive. Central and Eastern Europe share this characteristic. If these nations succeed in rehabilitating their economies, their contributions to global warming will grow dramatically. For global as well as national reasons, then, these nations must focus on improving energy efficiency. Appropriately, President Clinton's aid package for Russia includes $27 million for energy activities, including energy efficiency. AID, at the Congress's direction, has also focussed a significant share its Central and Eastern European program on energy efficiency.

Industrialized countries, however, cannot stabilize the climate alone. The developing world, historically a small contributor to the buildup of greenhouse gases, will become increasingly important as economic development proceeds among rapidly growing populations. Africa, Asia, and Latin America are expected to account for over 50 percent of greenhouse gas emissions by the middle of the next century. Deforestation and agriculture are currently the largest sources of emissions in these countries. Rapidly rising energy consumption will make energy-related emissions at least equally important in the future.

These regions also stand to suffer disproportionately from the impacts of climate change. Developing countries' economies are still largely dependent on agriculture and they possess fewer financial and technical resources to adapt to rapidly changing climatic conditions. Crowded coastal areas would be increasingly devastated by floods and storms.

In 1989, Congress directed AID to undertake a Global Warming Initiative to support efforts to reduce emissions of greenhouse gases in developing countries through activities that are consistent with local environment and development objectives. The FY90 appropriations act directed AID to identify key low- and middle-income countries that stand to contribute to global warming, to focus support for energy efficiency,

renewable energy, and forest conservation on these countries, and to provide an additional $15 million for these activities over previous agency levels.

By 1991, AID had identified 10 key countries and regions[6] and had met the congressional target for increased energy and forestry activity. Most of the agency's activity was in tropical forest conservation, already an AID focus as described above. Relatively few activities were launched in the key countries to support energy efficiency and renewable energy. As indicated above, of the $131 million obligated for energy in FY91, $77.4 million was spent on projects in Egypt and Morocco. From the balance, only India and Central and Eastern Europe received significant support for energy efficiency improvements.

Since FY91, support for energy efficiency and renewable energy in the key global warming countries has increased somewhat, largely due to the efforts of the central Office of Energy and Infrastructure. In Mexico, for example, the Office has worked with the Latin America Bureau to launch an energy efficiency program. An FY93 congressional earmark requiring 15 new renewable energy activities has helped the Office launch renewable energy projects in a number of key countries. A notable weakness, however, is Brazil. While the Latin America and the Caribbean Bureau maintains a $27 million climate change project for Brazil and Mexico, Brazil has received no funds for energy efficiency, despite requests for additional assistance and recommendations from respected Brazilian energy and environmental experts.

3. Population

The Earth's population in 1992 grew by some 93 million people. From its current level of 5.4 billion, it could triple by the end of the next century. More than 95 percent of future growth will take place in the developing countries and could overwhelm efforts to raise livelihoods and protect the environment. While growth rates are still high, some 70 developing countries have adopted policies to limit population growth. To pursue their goals of sustainable development and limiting population growth, these nations need support to eliminate absolute poverty, improve the social and economic status of women, and increase availability of education, family planning, and health services for all citizens.

AID has been a leader in population assistance since the 1960s. Now that the Clinton Administration has reversed the disastrous Mexico City Policy that undercut international population efforts, it should work with Congress to reinvigorate AID's population efforts with increased funding, high-level political support, and closer integration with AID's environment and development efforts.

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[6] Brazil, China India, Indonesia, Mexico, Pakistan, the Philippines, Poland, Zaire, and Central America.

For FY93, Congress earmarked $350 million for AID's population program. Population Action International has estimated that an appropriate U.S. contribution toward the goal of stabilizing population growth by the middle of the next century would be $650-$750 million a year today, growing to $1.2 billion by the end of the decade.[7] Clearly, the U.S. should be providing more family planning and other population assistance.

AID should also ensure that its population efforts are well integrated with its environmental protection and sustainable development efforts. For example, country environmental strategies should attempt to identify the links between demographics, poverty, and the environment, so that coordinated approaches can be taken, for example, where high fertility or migration is a major factor in environmental degradation.

4. Aid to the Former Soviet Union

As described above, environmental assistance to the former Soviet Union will be critical both to ensuring a safe and clean environment for the citizens of those lands and and to reducing the threat of global warming. Last year's Freedom Support Act established environmental, energy, nuclear safety assistance as high priorities for U.S. assistance.

AID has made a commendable effort to develop environmental assistance for Russia and the Newly Independent States (NIS). The agency has designed a four-year, $35 million Environmental Policy and Technology Project to strengthen environmental policies and institutions, stimulate improved private-sector environmental management and technology transfer, support NGO activities, and raise public awareness of environmental issues. AID is coordinating the project closely with the Russian Ministry of Environment and Natural Resources, the World Bank, the government of Canada, and EPA.

Properly managed, this project would put AID in a leadership role in responding to the former Soviet Union's environmental challenges. NRDC is particularly encouraged by the project's proposed funding for local NGOs. Unfortunately, internal and inter-agency disagreements have caused serious delays. Congress should urge the new AID Administrator to move quickly to resolve outstanding problems and begin obligating funds in FY94. This case highlights the need for a senior environmental officer at AID to resolve internal conflicts and for improved inter-agency coordination, both recommended below.

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[7] Sharon L. Camp, "Population: The Critical Decade," Foreign Policy, No. 90, Spring 1993, pp. 138-139.

AID's proposed energy and nuclear safety activities, on the other hand, are in need of close scrutiny. While significant funds have been allocated for these acitivities in FY93 -- $27 and $25 million respectively -- a lack of clear guidance from the new Administration has allowed them to proceed with serious strategic and technical flaws carried over from the previous administration.

The Freedom Support Act establishes a clear goal of shutting down the former Soviet Union's most dangerous nuclear reactors and identifying energy alternatives. However, AID's nuclear saftey activities under the Lisbon Nuclear Power Plant Safety Initiative encourage continued operation of these very facilities (Chernobyl-type RBMKs and VVER 440-230s) by including them as potential reciepients of future safety assistance. This policy should be reversed. U.S. assistance should not create incentives to continue operation of unsafe nuclear facilities. The Lisbon Initiative also fails to address nuclear risks comprehensively. It is focussed narrowly on plant operations and gives inadequate attention to the the nuclear fuel cycle, waste disposal, and alternative energy sources. Poor management of the Initiative has left the technical concerns of Russian experts unaddressed and has produced poor coordination between AID, DOE, EPA, and the State Department.

AID's Energy Efficiency and Market Reform Project for Russia, meanwhile, has the potential to play an important role in replacing Russia's worst reactors with safer, more efficient energy systems. Unfortunately, the project lacks a clear mandate to do so. While many of the proposed activities under this project are aimed at improving energy efficiency, no formal connection is made to the nuclear safety initiative. The only clear connection, in fact, is a written policy that assures the U.S. nuclear industry a role in developing projects.

C. Recommendations for Reform

Congress and the Administration must work together this year to redefine AID's mission and to provide an improved structure for effective and accountable programs. NRDC recommends that this effort include the following steps:

1. **Establish sustainable development as AID's primary, overarching objective and make sustainability a fundamental component of project and program review.**

AID's primary, overarching objective should be to promote sustainable development in its partner countries. This means supporting local efforts to end poverty, protect the environment, and build participatory democracy. NRDC was pleased that Brian Atwood suggested democracy and sustainable development as the top two goals of AID. Other objectives -- including promoting U.S. exports and solving global problems -- will be advanced by a sustainable development approach, but they should not drive the AID program.

AID should translate the overarching goals of sustainable development into its review of all programs and projects. Proposed activities should be reviewed for their environmental sustainability and for their contributions to poverty reduction, population stabilization, and public participation in economic and political decision-making.

2. Create a new, senior-level position to oversee AID's environmental efforts.

A fundamental weakness of AID's environmental program is its lack of environmental professionals in positions to exercise control over the agency's environmental portfolio. The regional bureaus are thinly staffed. The central bureaus have no formal authority over country and regional programs.

As one of his first steps, the new AID Administrator should create a new, senior-level staff position to oversee AID's environmental work. A new Deputy Administrator or Directorate for the Environment would be appropriate -- the position must be above the fray of turf conflicts between the central and regional bureaus. The position should be filled by an individual with technical environmental training and considerable experience in environment and development. He or she should have the authority and professional staff needed to review AID's environmental portfolio and to make changes in the regional and substantive balance of the portfolio as well as in individual projects.

At minimum, a timely, detailed, and objective review of AID's current environmental portfolio is critical. This subcommittee and others should discuss with the new AID Administrator the idea of creating a task force of AID officials and independent experts to conduct such a review and to identify opportunities for improvement. Among other things, such a review should attempt to identify meaningful performance indicators for individual projects in the five areas of AID's Environment Strategy as well as benchmarks for the agency's overall performance in these areas, including funding targets.

3. Increase staff levels of environmental professionals in the missions and the regional and central bureaus.

The quality of AID's environmental program depends on the professional capabilities of its direct-hire staff. These capabilities, however, are disturbingly thin throughout the agency. AID officials have had to piece together an environmental staff through contractors, secondments from other agencies, and fellowships. Most mission environmental officers are not technically trained in an environmental discipline.

This situation must be corrected in reorganizing the agency. Congress has noted the problem in recent years and has encouraged the agency to hire additional environmental and energy professionals. Little has happened. This subcommittee should seek a commitment from the new Administrator to add direct-hire environmental professionals to key missions and to the regional and central bureaus. AID should

continue to press OMB allow the agency to use existing congressional authority to use program funds to hire new environmental staff.

4. **Focus on delivering assistance through national-level foundations or trust funds to local NGOs.**

AID should continue its current positive trend of working more closely with NGOs. To better reach local NGOs in recipient countries and to provide them with assured long-term funding sources, AID should help establish and fund national-level foundations or trust funds. Such entities could provide an extremely wide range of environmental and sustainable development assistance, depending on national priorities and NGO capabilities and interests.

This approach should be encouraged in all regions. In Latin America and the Caribbean, AID can build on the model established under the Enterprise for the Americas Initiative. The Foundation for the Philippine Environment provides a model for the Asia region. In Africa, AID should seriously pursue its initial investigation of the feasibility for foundations and trust funds.

5. **Increase support for energy efficiency and renewable energy.**

As described above, AID currently provides little support for energy efficiency and renewable energy outside of Central and Eastern Europe. AID should continue to increase the budget of its central Office of Energy and Infrastructure, the only office seriously committed to providing assistance in these areas.

The new senior environmental officer recommended above should direct the regional bureaus and missions to provide increased support for energy efficiency and renewable energy. Adding staff with energy efficiency and renewable energy experience to missions and regional bureaus would be an effective strategy to stimulate additional activity.

AID should better integrate its nuclear safety and energy efficiency activities in the former Soviet Union and ensure that both are clearly focussed on the goal established in the Freedom Support Act of shutting down the region's most unsafe reactors and promoting energy alternatives.

6. **Increase population funding and integrate population activities with AID's environmental and sustainable development programs.**

AID should increase its population obligations in FY94 to $650 million. The agency's reorganization should also seek to integrate better the population programs with the agency's environmental and development programs.

7. Create a Sustainable Development Advisory Panel.

Finally, AID should consider creating a public advisory panel of experts on environment and development. A Sustainable Development Advisory Panel could help monitor AID's environmental portfolio to ensure that funds are well targeted geographically and substantively, that individual projects are well designed and managed, and that agency staff employ state-of-the-art techniques and approaches. Initially, such a panel could help AID develop appropriate project and program review criteria to ensure that all activities support sustainable development, as recommended above. Such a panel could also assist a new senior environmental officer in undertaking a comprehensive review of AID's environmental portfolio, also as recommended above.

IV. STRENGTHENING OTHER BILATERAL PROGRAMS TO SUPPORT ENVIRONMENTALLY SUSTAINABLE DEVELOPMENT

The United States' bilateral environmental efforts should not be limited to AID. Domestic environmental and natural resource agencies, federally funded international development foundations, and export promotion agencies all can play valuable roles in supporting environmental protection efforts and environmentally sustainable development activities in the developing world and former Soviet bloc.

A. Domestic Environmental Agencies

Domestic environmental and natural resource agencies can play a valuable role in applying their technical and policy expertise to assist counterpart agencies overseas. In recent years, EPA has been particularly active in supporting the development of environmental regulatory capabilities in Mexico, Central and Eastern Europe, and the former Soviet Union. EPA's Global Change Division and Air and Radiation Office are also working with governmental and non-governmental technical experts around the world to develop inventories of greenhouse and ozone depleting gas emissions and action plans and pilot projects to reduce them. Other environmental and natural resource agencies active internationally include the Fish and Wildlife Service, the Forest Service, the National Oceanic and Atmospheric Administration (NOAA), and the Department of Energy, among others.

Congress should work with the Administration to craft an effective, workable, coordination mechanism for these agencies' international operations to avoid counterproductive turf conflicts and to coordinate government-to-government contact on policy and program matters. AID is a natural lead agency for such an inter-agency group and should be given the job if its new Administrator has effectively overhauled the agency's own environmental program after a reasonable period of time, say six months to one year. Alternately, the State Department in the person of Counselor Tim Wirth or the National Security Council in the person of Senior Director for Global Environmental Affairs Eileen Claussen could be assigned the role of coordinator. The AID

Administrator would be preferable, in our view, as he would bring to the job a long-term development perspective relatively free from day-to-day foreign policy concerns.

B. International Development Foundations

The federally funded international development foundations -- the Inter-American Foundation (IAF), the African Development Foundation (ADF), and Appropriate Technology International (ATI) -- are a critical and under-recognized component of the U.S. bilateral assistance program. Because of their small size and grass-roots perspective, they are often better suited than AID to work with small, in-country, non-governmental organizations on long-term sustainable development projects.

NRDC and other environment and development organization have recommended to the Administration that the foundations' budgets be increased beginning in FY94. Unfortunately, the Administration's budget request maintains funding for IAF and ADF at its FY93 levels and does not specify funding for ATI. We urge Congress to include funding increases for these organizations in its FY94 authorizing and appropriations legislation. Congress should also direct the foundations to review their charters and mission statements to ensure that all of their activities support environmentally sustainable development.

NRDC also recommends that Congress urge the Administration to examine the establishment of a new foundation specifically dedicated to supporting environmental protection and conservation efforts of developing country non-governmental organizations and small government agencies. Such a foundation would fill a critical gap in existing international environmental assistance. While AID is making greater efforts to work local NGOs, it still has a difficult time working with the wide spectrum of such organizations that exist in the developing world. In general, AID's cumbersome grant processing procedures make it difficult for small, local institutions to receive direct support. The MDBs, meanwhile, are almost incapable of providing the small amounts of funding and close monitoring and technical support these organizations need.

A new environmental foundation could support local groups in a wide range of areas, including biodiversity conservation, energy efficiency, community-based conservation and sustainable development projects, and research and advocacy on environmental law and policy. It could provide support directly to local organizations and also help establish and fund national-level foundations or trusts to guarantee a long-term source of support for local conservation efforts.

C. Export Promotion Agencies

Promising opportunities exist for the export promotion agencies -- the Commerce Department, the Overseas Private Investment Corporation (OPIC), the Export-Import Bank (EXIM), and the Trade and Development Agency (TDA) -- to help the U.S. do

well by doing good for the environment. President Clinton and Vice President Gore have argued repeatedly that environmental protection efforts in the developing countries and the former Soviet bloc open major new markets for U.S. technologies. The demand for environmental goods and services in developing countries is currently more than $100 billion annually and will continue to grow rapidly. This subcommittee should urge Commerce, OPIC, EXIM and TDA to develop aggressive new programs to support environmental protection efforts in the developing world, Central and Eastern Europe, and the former Soviet Union.

Energy efficiency and renewable energy are particularly promising -- and critical -- opportunities. The nations of the former Soviet bloc and the developing world cannot afford to pursue conventional energy strategies. Investment requirements for electric power alone in the developing countries -- estimated at $60-100 billion annually -- cannot be met with currently available resources. In all countries, energy production and use are major sources of air, water, and land contamination and contribute to the destruction of critical ecosystems. As noted above, the former Soviet Union is already the second largest source of greenhouse gas emissions, after the U.S. The developing world is expected to overtake the industrialized countries in greenhouse gas emissions by the middle of the next century.

NRDC and other organizations have called on the Administration to undertake a bold initiative to promote energy efficiency and renewable energy abroad. We have proposed a RENEW Initiative for environmentally superior energy development that would be a coordinated effort of the export promotion agencies, the development agencies, the Department of Energy, and EPA. This proposal is described in the attached letter to President Clinton from the U.S. Working Group on Global Energy Efficiency. Our organizations firmly believe that no greater opportunity exists to address simultaneously the momentous challenges of promoting sustainable development, protecting the global environment, and enhancing U.S. competitiveness. I urge this subcommittee to review our proposal and consider voicing your support for it to the Administration.

D. Environmental Review Procedures

All U.S. bilateral assistance and export promotion agencies should consistently ensure that their activities abroad are environmentally sound and sustainable. NRDC and other environmental organizations have recommended that the Administration undertake a review of these agencies' environmental procedures to ensure, at minimum, that the requirements of Executive Order 12114 are consistently applied.[8] We have also

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[8] Executive Order 12114, issued by President Carter, directs all federal agencies to review the environmental impacts of their activities abroad and provides guidance on the scope of review required for various activities according to the nature and geographical extent of their impacts.

encouraged the Administration to bolster the environmental accountability of the bilateral assistance program by reversing past executive branch policy and directing federal agencies to comply with the National Environmental Policy Act (NEPA) in their activities abroad. NRDC urges this subcommittee to consider calling on the Administration to carry out these two initiatives.

V. CONCLUSION

This is a critical year for the United States to follow through on our Earth Summit commitments to assist the developing countries and the former Soviet bloc in a transition to environmentally sustainable development. A new administration also presents a unique opportunity to substantially reorient our bilateral development assistance program toward this goal. AID, in particular, is in urgent need of reform if it is to continue functioning at all. Other domestic and international priorities, however, threaten to crowd out these difficult challenges. NRDC strongly urges this subcommittee to be a vigorous advocate for prompt action to rehabilitate AID and to expand the international environmental activities of other agencies.

WWF

THE UNITED STATES BILATERAL ASSISTANCE PROGRAM AND GLOBAL NATURAL RESOURCE PROTECTION

Statement of R. Michael Wright
Senior Fellow
World Wildlife Fund

Before the

Subcommittee on International Economic Policy, Trade
and Environment
House Committee on Foreign Affairs

May 4, 1993

Mr. Chairman, members of the Subcommittee, I am Michael Wright, Senior Fellow with the World Wildlife Fund. I very much appreciate the opportunity to be here this morning to present WWF's views on the U.S. government's bilateral aid program for the global environment and to discuss with you ideas for possible new initiatives.

As you may know, WWF is the largest private conservation organization working worldwide to protect nature while promoting sustainable human economic development. We have 27 affiliates around the world and some 1.25 million supporters here in the United States. WWF is active in a range of conservation issues, from protection of wildlife and critical ecosystems to climate change to pollution prevention and industrial and agricultural toxic reduction. I will frame my remarks this morning with a particular emphasis on the links between biodiversity conservation and development.

I do not think it necessary to spend a great deal of time outlining the challenge we face regarding global natural resource protection. The ongoing destruction of the world's plant and animal species -- our biological and genetic resource base -- is well documented: 100 acres of tropical forests disappearing every minute and an extinction rate estimated to be 400 times higher than that of the recent geologic past are just two disturbing indicators.

Less well recognized is the link between loss of biological diversity and human poverty. WWF operates on the principle that conservation of natural resources and human development are fundamentally and inextricably linked. As we look around the world, we cannot expect healthy economies to grow from impoverished resource bases. Neither can we expect that nations with impoverished economies will be able to dedicate resources to environmental protection over the long-term.

If there is one central principle to development assistance that I would like to leave here with you today, therefore, it is that government agencies such as A.I.D., as well as private organizations such as WWF, must link natural resource management with sustainable human economic development if progress is to be made, both are social and political issues, not

technical ones. The question is not whether biological diversity and the earth's natural resource base are under threat, nor whether the lives of many of the world's poor people are at risk as a result, but rather how the United States can most effectively respond.

THE OPPORTUNITY TO ACT

WWF recognizes that present budgetary constraints facing the United States and other industrialized neighbors make it unlikely that significant new resources will become available in the short-term. From WWF's perspective, however, opportunities still exist for progress in developing cooperative programs to conserve biological diversity while meeting human needs. If we can develop effective, focused initiatives, the U.S. can lead the developed world in formulating and carrying out an aggressive response against further global environmental degradation. In taking such a lead, we must recognize that the U.S. and other industrialized nations share responsibility for the environmental challenge facing the globe, and that we will all suffer if current trends are not reversed.

Developing countries do not expect the U.S., or even the U.S. and its industrialized allies, to shoulder the entire burden for resource protection. Many developing countries have made major commitments of their own limited human and financial resources. Throughout Latin America, the Caribbean, Africa, Asia and the South Pacific, the creation of national parks and reserves has proceeded at an extraordinary pace during the last decade. New programs of forest and wildlife management are developing every year. Conservation professionals in government parks and wildlife agencies maintain their dedication and hard work despite often severe austerity measures, meager salaries and great physical risk. But faced with economic crisis there are limits to what they can accomplish alone.

The growth of democratic, open societies, increased public awareness and the realization that government alone cannot meet the broad array of conservation needs has resulted in an explosion in the number of private, non-profit conservation organizations in many parts of the developing world. These are becoming increasingly effective in mobilizing volunteer support and scarce resources for conservation programs from the grassroots to the national level. Accompanying the increased public awareness is the rapid growth in the number of young people

who have decided to enter conservation as a career. With educational and employment opportunities, this youth will make the difference over the next 10-20 years in promoting development while conserving the biological diversity and natural resources of their respective countries.

WWF therefore believes that the immediate challenge is to identify innovative mechanisms and approaches to invest in conservation and development programs that develop, encourage and support these human resources. By focusing on the fundamental issue of capacity-building, the U.S. aid program can help build programs whose benefits will endure.

CURRENT PROGRAM

Overall, the U.S. government, and particularly A.I.D., has made substantial efforts to expand and improve its environmental programs in order to meet congressional mandates authorized in the Foreign Assistance Act (particularly Sections 117-119) and funded in the Foreign Operations process through earmarks such as those for biological diversity, global climate change, and others. In the FY 1993 Foreign Operations bill (PL 102-391), Congress mandated that A.I.D. allocate $650 million for environment and energy activities.

In evaluating A.I.D. funding, the most recent figures available are from Fiscal Year 1991. From our best estimation, in that year environmental obligations exceeded $660 million, with more than $70 million going to biodiversity conservation and upwards of $140 million going to promote more environmentally efficient energy production and use. I would point out that of the overall $660 million, a substantial percentage has been devoted to projects in Egypt, including the majority of energy funds.

Beyond Egypt, A.I.D. has developed a quite expansive project portfolio, with 75 projects devoted to biodiversity globally and 106 additional projects in forestry for the same year. A significant number of projects were directed to medium-income Latin American countries that had not previously been major recipients of US foreign assistance dollars. Although these nations contain some of the most biologically diverse ecosystems in the world, they may not have otherwise been reached without this focus on their environmental importance.

Particularly notable are A.I.D.'s efforts to work with local communities to conserve forest and biological resources through initiatives such as Integrated Conservation and Development Projects (ICDPs). ICDPs work with communities to demonstrate the financial, social and environmental benefits of preserving biodiversity and other natural resources. An example of these projects is the BOSCOSA forest management and conservation project in Costa Rica which seeks to work with displaced banana workers and gold panners to utilize non-timber biological resources in income generation and preserve original growth forests. Community Conservation of Biodiverse Resource Areas Project (COBRA) in Kenya is another project which works with communities which surround wildlife preserves to devise conservation strategies which are acceptable to all parties and works in institution strengthening by training extension agents of the Kenyan Wildlife Service in how to incorporate the needs of people into their wildlife strategies.

These are vital and commendable activities. Last year A.I.D. together with WWF and the World Bank undertook an assessment of these ICDPs and more recently the Biodiversity Support Program, an A.I.D. supported consortium made up of WWF, World Resources Institute and The Nature Conservancy, is working with A.I.D. to learn and replicate lessons from Africa. A.I.D. should be collecting and interpreting these information and utilizing it to shape further initiatives in sustainable development as existing project commitments are completed.

That said, I would like to raise two significant concerns. First, while A.I.D. should be commended for exceeding the Congressionally mandated allocation last year, WWF is concerned that environmental obligations may now be decreasing at a time when we are in a position to learn from and build on the earlier innovative experiments. Unless the pace of new program and project development increases, total environmental spending could actually drop below the FY 1993 Congressionally mandated $650 million stipulated in PL 102-391.

A primary reason for our concern is that as existing projects are drawing to a close it does not appear that equivalent new initiatives being developed. Without new projects, A.I.D.'s environmental portfolio will naturally shrink. According to our best estimates, for example, biodiversity funding in FY 1993 could be below $50 million, down from the more than $70

million allocated in earlier years. If A.I.D. is to continue to reflect the will of Congress and the American people, it must continue to initiate new programs that assure consistent funding in resource conservation.

Second, WWF would to encourage A.I.D. to place particular emphasis on long-term conservation approaches and programs as a complement to its project activities. Currently, A.I.D. biodiversity activities are focused primarily at the project level. Projects are run out of numerous parts of the Agency, they start and end, and while individual projects might be quite effective, it is difficult to judge their cumulative long-term impact.

This is not to criticize particular projects. A.I.D. technical assistance and project funding are a valuable and needed function of the Agency. But looked at through a long-term lens, it becomes apparent that a project-by-project approach to conservation must be complimented with a focus on human capacity building and institutional sustainability. WWF would recommend that as existing projects are completed, A.I.D. should shift a significant portion of those resources towards such long-term, in-country capacity building. If, after all, an overarching goal of U.S. development assistance is to help countries develop to a point where they can "graduate" from U.S. assistance, they must develop the ability to operate independent of U.S. assistance. WWF believes that this is possible in the area of natural resource management.

The remainder of my statement will focus on two very specific actions the Clinton Administration and Congress can take, quickly and without great cost, as components of an overall A.I.D. focus on sustainable development. These are:

1) Establish mechanisms to provide a sustainable funding base for host country institutions to develop long-range conservation and development goals and programs adapted to meet local needs and priorities as well as global concerns; and,

2) Focus attention on developing the human resources, professional and otherwise, that over time will enable nations to make wise resource management decisions and spend funding effectively.

The common theme between these two, and indeed among all effective programs, is the effective involvement of local people in managing their natural resources.

SUSTAINING LOCAL INSTITUTIONS FOR CONSERVATION OF NATURAL RESOURCES

Over the past several years, conservationists have come to realize that developing creative ways to invest resources efficiently and effectively is critical to securing scarce funding for conservation. To stretch dollars without diminishing program impact, for example, in 1984 WWF conceived of the "debt-for-nature" swap through which a debtor country's obligations are converted into funds for conservation.

The first debt-for-nature swaps completed in 1987 and 1988 were strictly private transactions in which WWF and other private conservation organizations would purchase a developing country's commercial debt at a discount on the secondary market, then convert the debt into a local currency instrument to finance programs of local organizations. Frequently, the instrument chosen would be a long-term bond whose interest would be paid out over time to maximize the impact of the swap and enable long-term program planning.

In 1989, Congress authorized A.I.D. to participate in debt-for-nature swaps by funding non-governmental swaps. Through this measure, Congress authorized A.I.D. grantees to keep local currency in interest-bearing accounts and endowments for specified program purposes rather than reverting interest to the U.S. Treasury. This represented a major step forward, as now A.I.D. as well as private organizations could fund long-term conservation endowments and begin to reach beyond short-term project funding.

From the beginning of these initiatives, however, WWF understood that the private debt mechanism would not, and should not, always be available, since deeply discounted debt on the secondary market signals economic distress in the host country. As countries restructure debts and stabilize economically -- a vital goal -- private debt becomes increasingly expensive or unavailable. In addition, countries with great conservation and human needs did not necessarily coincide with the availability of discounted debt.

Since then, WWF has worked to develop effective new models -- conservation trust funds and foundations which can sustain local institutions. "Trust fund" in this sense is a general term to indicate a sum of money that is legally restricted to being used for a specified purpose, separate from other funds, and is managed by a trustee or board of trustees which holds legal title to the funds. A "foundation" in this situation focuses more on the structure by which the funds may be programmed for conservation with a particular emphasis on local decision-making. WWF has assisted (or is currently assisting) in the establishment of conservation trust funds or foundations in Bhutan, the Philippines, Papua New Guinea, Belize, Guatemala, Honduras, Colombia, Poland, Uganda, Nepal, Mexico, the Republic of the Congo, and Namibia, as well as two multi-national trust funds -- a tri-national fund in Poland, Slovakia and Ukraine and a binational one for Poland and Belarus.

The U.S. government has also been working on new models. In 1990 and again in 1992, Congress passed legislation authorizing components of the Enterprise for the Americas Initiative, a central component of which is debt reduction and the establishment of environmental trust funds. Through the Enterprise for the Americas Initiative (EAI), the United States has negotiated eleven debt reduction agreements with seven Latin American and Caribbean nations, and the Treasury Department estimates that up to $154 million may become available for environmental trust funds over the life of the program.

All these different financial mechanisms are designed to provide long-term, sustained funding for national conservation institutions. Presently, developing country budgets for conservation are minimal and international support is inadequate, inconsistent, and difficult to secure. The ups and downs of development assistance to regions and countries, and the typical 3-5 year time-frame for aid programs, do not lend itself to the long-term vision, planning, and sustained program growth that are so critical to building viable conservation programs. Planners, field managers, researchers, and policy-makers need to know that they can count on financial resources not only this year but in the long-term as well. Conservation trusts promote program stability, long-range planning, training, and recruitment of personnel. This advantage is not only key to strong and sustained program growth, but also to creating independence and capacity in developing nations.

In the FY 1993 Foreign Operations appropriations bill (PL 102-391) Congress provided AID with the authority to establish U.S. government/non-governmental organization cooperative trust funds:

> In order to enhance the continued participation of nongovernmental organizations in economic assistance activities under the Foreign Assistance Act of 1961, including endowments, debt-for-development and debt-for-nature exchanges, a nongovernmental organization which is a grantee or contractor of the Agency for International Development may place in interest bearing accounts funds made available under this Act or prior Acts or local currencies which accrue to that organization as a result of economic assistance provided under the heading "Agency for International Development" and any interest earned on such investment may be used for the purpose for which the assistance was provided to that organization.

With this authority, A.I.D. now has the option of endowing conservation trust funds or establishing foundations directly as one means of disbursing foreign assistance funds. However, as far as we know, A.I.D. has not yet finalized program guidelines. Moreover, this authority is temporary and should be written into the Foreign Assistance Act as its reauthorization moves forward this year. WWF is urging the Administration and Congress to make full use of trusts and foundations to help recipient countries develop long-term sustainable development strategies to protect the environment and link initiatives with local community development.

If sustainable development is to have reality on the ground, decisions must be in the hands of the local people. Therefore, mechanisms have been developed to allow trusts to be governed by a local board of directors, with appropriate accountability to the U.S. government and other funding sources. The trust and foundation approach thus gives additional responsibility and new opportunities to local institutions, both public and private, to build on their own experience and capabilities in the design and management of conservation programs, and in developing institutional self-sufficiency. This strengthening of local institutions and the ability to plan, articulate and execute conservation programs will ultimately be the bridge to countries becoming self-sufficient in biodiversity conservation in the year 2000 and beyond. Further, as local institutions are strengthened, demands on staff time for A.I.D. employees decreases.

DEVELOPING LOCAL CAPACITY TO MANAGE NATURAL RESOURCES

The focus on local human resources and capacity-building is absolutely critical to the future of sustained conservation effort. While the gross inadequacy of available financial resources is a paramount issue, resource allocation and management is equally critical. Tremendous need exists for programs to develop a strong, self-sustaining human capacity for conservation. This means helping people gain the knowledge, skills, motivation, and commitment they will need to manage the earth's resources sustainably and to take responsibility for maintaining environmental quality.

The current lack of such a human infrastructure with the necessary skills limits effectiveness because the success of conservation efforts depends largely on the experience and ability of those who conceive, plan, enact, promote, and enforce initiatives, as well as on the support of those whose lives and livelihoods they directly affect. If natural resource management is to achieve self-sufficiency, it must be premised on a model of "sustainable conservation" -- creating local capacity so that those most directly affected by loss of natural resources have the range of skills and the power they need to manage these resources.

Traditional environmental training is sectoral and rather straightforward and is no longer adequate to the task at hand. An environmentalist now must be versed not only in areas such as land management and wildlife biology, but must also be able to interact with policy-makers, economists, agricultural extension agents, womens groups, and other key audiences. Existing staff need in-service training in this more complex arena and traditional training institutions and courses need to be modified and staff retrained.

Building this capacity represents a significant challenge. Throughout the world, public and private institutions do not have sufficient resources to train personnel, nor to develop the types of integrated new courses and programs demanded by conservation as we enter the next century. Many natural resource agencies have been under budgeted and under staffed since their creation, and thus have never had the human or financial resource capacity to attract and keep qualified personnel. To tackle natural resource management, U.S. development aid strategies and programs must seek to redress this bottleneck to progress.

As resources are identified, therefore, WWF believes that a higher priority must be given to leveraging the spending value of those resources by using them to build the human capacity needed to build the bridge to sustainable conservation in the 1990s and beyond.

The value of training certainly has not escaped the U.S. government's attention, and current U.S. programs and projects in the field of natural resource management training are significant. They are also carried out by a variety of agencies and mechanisms. Along with A.I.D., training is performed by agencies including but not restricted to the United States Information Agency, the Forest Service, the Peace Corps, the Environmental Protection Agency, the Fish and Wildlife Service, the Department of Energy, and the Smithsonian Institution. In some cases, training programs are executed through partnership arrangements with A.I.D. but increasingly agencies are initiating their own programs in international training to utilize their special expertise. Without discouraging these initiatives, the need to rationalize the process is obvious. A summary of activities includes:

A.I.D.

A.I.D. is by far the largest source of environmental and natural resource training. A.I.D.'s training is executed on all levels from post-graduate at Yale to the most basic form of environmental awareness programs at the village level. Here in the United States, A.I.D. sponsored over 14,000 postgraduate students from abroad as part of its Thomas Jefferson Fellowship program in participant training which is administered through the Office of International Training (OIT). A.I.D. also sponsors extensive short-term training here in the United States which is also mostly done contractually but administered through OIT as well. Additionally, each environmental project has training as a component, often it is the primary part of the project. Some have postulated that up to a quarter of all expenditures for environmental projects go to training of one kind or another.

A.I.D. has sponsored the development of some training institutions as well which should be applauded. The Forestry Institute in Nepal is using A.I.D. funds to expand its curriculum and form closer ties with the conservation community in Nepal for better coordination of its training of professional resource managers. The College for African Wildlife Management, in Mweka,

Tanzania, is one of the first in-country institutions for conservation professionals and is now in its thirtieth year of training park rangers from all over Africa. Costa Rica's University for PEACE specializes in short-term training of Latin American professionals in the biological as well as sociological factors involved in the successful management of reserves.

Forest Service

The Tropical Forestry Program under the Forest Service Office of International Forestry has initiated in-country training of forestry experts in Latin America, and elsewhere, on the rehabilitation of degraded lands and pest management. This branch of the Forest Service is also active in deploying the talent of over 32,000 specialists to address conservation in Latin America, Asia and Africa. The Office of International Forestry is particularly noteworthy because of the unusually speedy expansion of its role in forestry and biodiversity activities. A program which was funded with less than $2.5 million two years ago, could have an FY 1994 budget of over $30 million.

Environmental Protection Agency

The EPA's role is also expanding. In the past few years the Environmental Protection Agency has focused on sharing its information on "brown issues" to experts and officials in Eastern Europe responsible for pollution control. The EPA is now deploying personnel in Asia and Latin America to work with government officials, specialists, and members of the media on subjects such as environmental policy, assessment and enforcement. These programs share the lessons learned by the EPA as in-country training in the context of the conditions individual nations and regions must face.

The Smithsonian Institution

The Smithsonian Tropical Research Institute (STRI), based in Panama, investigates the marine and terrestrial ecosystems such as lowland tropical forests through the Barro Colorado Nature Monument as well as coastal regions on the Caribbean and Pacific. STRI has forged cooperative agreements with institutions in Kenya, India, Malaysia, and Papua New Guinea from which comparative research is being done. From its facilities in Panama and Kenya, specialists have the opportunity to learn at the cutting edge of biodiversity research.

The Peace Corps

The Peace Corps is the federal government's second largest trainer abroad. It has extensive programs which work with A.I.D. and other agencies to train at the community level. The environment is a core aspect of that training.

What these programs show in aggregate is that the United States government in involved in a variety of valuable training initiatives. WWF has been particularly interested In A.I.D.'s activities in this field, and has devoted considerable time seeking to evaluate A.I.D.'s environmental training programs. During this research, we have discovered that there is no way to determine the exact extent of their activities. Because training, both in the United States and in-country, is driven by individual mission offices, there is no central information source that gives policy makers information of what the agency is doing. As a result no one, in or out of A.I.D., has any idea of the full extent of A.I.D.'s environmental training portfolio.

Despite the lack of substantial, coordinated, real-time information from A.I.D., a survey of A.I.D.'s training programs inside of the United States and in the host countries, we are prepared to draw some conclusions and make some suggestions based on the information we have. It is clear that extensive resources are spent on bringing people in from other countries to learn from our experts both in government and academia. Using A.I.D.'s "Hand Book 10" as a guide, estimates for the cost of students sponsored by Thomas Jefferson Fellowship program through the Office of International Training can be as high as $40,000 per trainee year.

There can be no question that the knowledge to be found here in the United States is truly exceptional, but there may also be disadvantages to focusing so heavily on training through U.S. programs. For example, it removes the student from the actual environment in which they hope to apply their training. The student often has to make some cultural adjustments which can impair his or her ability to use time most effectively. If the trainee is a mid-career professional, he or she must leave job and family for extended periods of time which can be disruptive.

Finally, by training individuals here in the United States, U.S. policy passes up the opportunity to strengthen existing training institutions in other countries, so that nations and regions can perpetually train their own and go one step closer to self-sufficiency. WWF's recommendation is that A.I.D. should place more emphasis on program to train conservationists in country in skills and disciplines suited to particular local conditions. Under this approach, the idea is that the United States' role should be as a catalyst to "train future trainers" so that in the long run, whether the recipients be conservation professionals or those who rely on natural resources for their livelihoods, countries may develop independent, self-sustaining natural resource management systems and programs.

We believe that moving to this approach would help A.I.D. focus its attention and set priorities across several countries and over a number of years. It is clear to us right now that A.I.D.'s training efforts, while extensive, remain largely devoid of such an overarching strategy or coordination.

It is our suggestion that in FY 1994, A.I.D. should include within its overall focus on sustainable development, a comprehensive, locally-focused training program to provide opportunities for individuals to learn the new interdisciplinary concepts, methods and skills needed to play an effective role in modern, people-based conservation. Such an initiative should have four primary pillars:

1) focusing on future policy-makers, A.I.D. should work with universities within host countries, in collaboration with U.S. universities where possible, to review and adapt programs and courses which are built on local knowledge to meet local resource management needs;

2) A.I.D. should assist with technical and scientific training for on-the-ground natural resource managers such as park guards, community development specialists, and others directly responsible for developing and implementing natural resource management and community development programs;

3) A.I.D. should focus on resource users, particularly emphasizing support of local non-governmental organizations, and encouraging their participation in natural resource decision-making; and

4) A.I.D. needs to recognize that improving education opportunities for women, particularly primary education of rural women, is one of the best possible investments to address resource degradation and population growth.

WWF urges the Foreign Affairs Committee to strongly encourage A.I.D. to work with relevant agencies to develop an accurate, real-time summary of what the agency is doing in environmental training and how its activities mesh with those of other federal programs such as the ones specifically mentioned above. An initial step should be a comprehensive assessment of all ongoing U.S. government training programs and cross-program coordination, from the most basic to most specialized, domestically and internationally, compared to an assessment of international training needs. Another step should be a specific assessment of the Office of International Training at A.I.D., and how the Agency could better coordinate with other U.S. agencies involved in training with the goal of developing new, innovative training initiatives.

Because training needs and capacities vary from region to region, we would hope that A.I.D. and others interested in training would work with non-governmental organizations to develop its approaches and initiatives. In 1980 at the request of A.I.D., WWF undertook a study of the Natural Resources Training Needs in Latin America. Unfortunately this pioneering effort, developed with extensive participation of our Latin colleagues, was never implemented. Perhaps it is time to update the 1980 strategy and develop similar coordinated efforts in the other regions. A consortium such as The Biodiversity Support Program, which draws on the expertise of a number of organizations, would be well suited to work with A.I.D. on such an initiative. In general, we have found that public-private training initiatives can be particularly creative. For example, in the Protected Area Conservation Strategy (PARCS) in Africa A.I.D. is funding a consortium of three NGOs, including WWF, AWF and WCS, to train local resource managers to manage Africa's rich system of protected areas.

CONCLUSION

Mr. Chairman, WWF believes that A.I.D. should have a fundamental focus on sustainable development. In the process on developing such an integrated program, A.I.D should include sustaining funding mechanisms for long-term conservation and helping developing nations build the human capacity to carry out conservation. I attach for the record a WWF Discussion paper laying out these initiatives in greater detail. WWF looks forward to continuing to work with the Committee on these proposals, and I am happy to answer any questions you may have.

(Larry Saiers)
(May 4, 1993)
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SMALL DISADVANTAGED ENTERPRISE AWARDS

Since FY 1990, the growth rate for Small and Disadvantaged Enterprises has shown a steady increase as illustrated from the data listed below:

SMALL DISADVANTAGED ENTERPRISES
$= millions

1988	1989	1990	1991	1992
$154.2	$136.0	$163.2	$179.2	$249.9

In addition, A.I.D. is making a continuous and concerted effort at all levels of management to ensure that the capabilities of small disadvantaged enterprises are not overlooked in our procurement program.

We have made considerable progress in integrating socio-economic objectives within our program requirements and will continue to ensure that the Agency continues to provide contracting opportunities to these businesses.

Larry Saiers
May 4, 1993
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Line 2259

FY 1993 FUNDING FOR ENVIRONMENT AND ENERGY

The following list of projects includes all A.I.D.-funded environment and energy projects proposed for obligation in FY 1993. The printout breaks out the listing by account (Development Assistance, Development Fund For Africa, Economic Support Fund, Special Assistance Initiatives and New Independent States), by bureau and by country. The total funding for environment and energy projects from all accounts is estimated to be $674.6 million. This includes approximately $22 million in FY 1992 carryover funds from the Development Assistance and Economic Support Fund accounts, which does not count against the $650 million earmark for FY 1993, and approximately $20.6 million not yet released but which is planned for renewable energy, global climate change, and forestry activities.

[The list referred to is retained in the subcommittee file.]

Hearing before the

House Foreign Affairs Subcommittee on

Economic Policy, Trade and Environment

Hearing Date: May 10, 1993

OPIC Witness: Jane H. Chalmers

Acting Vice President and General Counsel

OPIC programs are available to the full spectrum of U.S. investors, including minority businesses. However, no statistics are maintained on the number of minority businesses utilizing OPIC programs.

Minority business is a focus of OPIC outreach activities. OPIC regularly sends representatives as panelists and participants to conferences and seminars that involve the minority community.

OPIC is strongly committed to working closely with minority business and small business. OPIC gives preferential treatment to investments involving small businesses and approximately 30 percent of OPIC projects involve U.S. small businesses. There is no minimum size requirement for such OPIC assistance. The small business definition is intended to capture firms smaller than the Fortune 1000 companies. In addition to including very small businesses, this definition is broad enough to enable a number of medium-sized businesses to benefit from OPIC's small business programs. As of May , 1993, OPIC's definition of a small business is as follows: Industrial companies with annual sales less than $166,000,000; and Non-industrial businesses with stockholder equity less than $56,000,000.

OPIC Projects in Africa

(Fiscal Year 1992 OPIC Finance and Insurance Projects)

AFRICA

Country	Company	Description	Amount of Assistance (in $)	Type of Assistance
Algeria				
	Bechtel International, Inc.	LNG Plant Rehabilitation	22,893,000	Insurance
	Tioga Pipe Supply Company, Inc.	LNG Plant Rehabilitation	2,630,000	Insurance
Cameroon				
	Africa Growth Fund	Oxygen Cylinder Filling Plants	651,600	Insurance
Ghana				
	Africa Growth Fund	Vehicle Distributorship	450,000	Insurance
Guinea				
	Louis Berger International, Inc.	Road Construction Services	4,200,000	Insurance
	Mellon Bank, N.A.	Bauxite Mining	6,112,188	Insurance
Kenya				
	Africa Growth Fund	Bottle Manufacturing	2,700,000	Insurance
Mozambique				
	Harrill Seafood, Inc.	Seafood Processing	2,250,000	Insurance
Nigeria				
	Chase Manhattan Bank, N.A.	Oil Storage	75,000,000	Insurance
Sierra Leone				
	Sierra Rutile	Rutile Mining and Processing	15,000,000	Loan Guaranty
Tanzania				
	Tanruss Investment Limited	Hotel Construction and Operation	15,000,000	Loan Guaranty
Tunisia				
	Dale Operating Company of Tunisia, L.L.C.	Oil Exploration	4,356,765	Insurance
West Africa Region				
	Evergreen Helicopters	Aerial Spraying for Onchocerciasis Control	2,662,308	Loan Guaranty
Zambia				
	Citibank, N.A.	Banking	8,300,000	Insurance
Zimbabwe				
	Union Carbide Chemicals	Ore Processing & Plastics Company, Inc.	17,550,000	Insurance

OPIC Projects in the Caribbean Region

(Fiscal Year 1992 OPIC Finance and Insurance Projects)

Caribbean Region

Country	Company	Description	Amount of Assistance (in $)	Type of Assistance
Belize				
	Dominion Energy, Inc.	Electric Power Generation	25,000,000	Insurance
Costa Rica				
	Conair Corporation	Personal Care Products	4,050,000	Insurance
	Embotelladora Centroamerica S.A.	Expansion of Soft Drink Bottling Facility	6,000,000	Direct Loan
	Leach & Garner Company	Jewelry Manufacturing	1,500,000	Insurance
	Rodriguez & Rodriguez	Medical Clinic	880,000	Insurance
Dominican Republic				
	Citibank Overseas Investment Corporation	Banking	506,356	Insurance
	Continental Grain Company	Grain Warehouse and Storage	1,150,000	Insurance
Guatemala				
	Enron Corporation	Electric Power Generation	73,750,000	Insurance
	GTECH Latin America	Charitable Lottery System	4,410,000	Insurance
	Jades, S.A.	Expansion of Jade Processing Operation	900,000	Direct Loan
Guyana				
	Guyana Telephone and Telegraph	Privatization and Modernization of Telecommunication Network	40,000,000	Loan Guaranty
Jamaica				
	Citibank Overseas Investment Corporation	Banking	78,970	Insurance
	Citibank, N.A.	Banking	1,487,630	Insurance
	Kaiser Aluminum & Chemical Corporation	Alumina Refinery	50,000,000	Insurance
Panama				
	Astilleros Braswell International	Shipyard Refurbishment	3,000,000	Direct Loan
	Graybar Electric Company, Inc.	Electrical Equipment Distribution	2,050,000	Insurance
	PanAgro, S.A.	Expansion of Fertilizer Production Facility	3,000,000	Direct Loan
Venezuela				
	G T E Venezuelan Telephone, Inc.	Privatization of Telephone System	40,000,000	Insurance
	Triad International Labs, Inc.	Mineral Analysis Services	2,000,000	Insurance

Israel Growth Fund

The Israel Growth Fund Manager will be Israel Growth Management Company, which will also be the General Partner in the Fund. This company will be a joint venture of Leumi & Co. Investment Bankers, Ltd. (a unit of Israel's Bank Leumi, a major financial services company) and Apax Partners (an affiliate of Patricof & Co. Ventures, Inc. of the U.S.) a leading international venture capital firm.

QUESTIONS FOR THE RECORD
TESTIMONY OF A.I.D. ACTING DIRECTOR FOR POLICY
HFAC Subcommittee on Economic Policy, Trade and the Environment
May 4, 1993

ENVIRONMENT

Question: **Conservation trust funds**

Should A.I.D. be given permanent authority to work with NGO's to create conservation trust funds? Do conservation trust funds fill a gap in A.I.D.'s programs not filled by other types of bilateral assistance?

Answer:

- Section 567 of the FY 1993 appropriations bill gives A.I.D. temporary broad authority to create endowments for environmental and other NGOs through two means. debt-for-nature swaps and direct grants.

- The debt-for-nature swap authority has been in place for several years and A.I.D. has found this to be a valuable tool to leverage additional resources for host country NGO's.

- The authority for direct grants for endowments is new this year. We believe the authority may be useful in supporting NGOs over a longer period of time and in leveraging additional private resources for such institutions.

- A.I.D. hopes that both of these mechanisms will be useful in supporting effective programming of bilateral assistance resources.

Question: **Environmental training**

How does A.I.D. train individuals from developing countries in skills that promote environmental goals? How should these programs be strengthened?

Answer:

- Training is at the core of virtually every A.I.D. project including our environmental projects.

- Environmental training is done both as an integral part of our technical assistance projects and through generic training projects. Adults are reached through short- and long-term formal training either in the U.S. or their own countries. Children are reached through programs to support environmental curricula in the schools. Both also receive informal training through television, radio, newspapers, and community programs. A.I.D. uses a variety of sources for training services including: universities, NGO's, federal agencies, and companies.

- Because these programs are so varied in content, purpose and approach and are already central to most of our environmental programs, there does not appear to be a single innovation available that would strengthen them. A.I.D. monitors such training closely to ensure that it is as effective as possible.

Question: Agenda 21

How will Agenda 21 principles be fully incorporated into A.I.D.'s work? Should Congress create a commission to accomplish this task?

Answer:

- As A.I.D.'s environmental programs have grown over the years they have tracked, and usually led, the thinking on how to integrate environment and development in developing countries. As a result, A.I.D.'s environmental programs are already fully consistent with Agenda 21 principles and its recognition of the need to address environmental problems in the context of development.

- We are implementing a $650 million portfolio of activities this year that addresses the key elements of Agenda 21 where the U.S. has predominant expertise and those elements are applicable to A.I.D. assisted countries.

- A.I.D. participates in ongoing Executive Branch interagency working groups that are reviewing how the U.S. government as a whole can be responsive domestically and internationally to Agenda 21 principles.

- Because the Executive Branch as a whole is already addressing Agenda 21 issues, and because Agenda 21 includes domestic as well as international assistance program concerns, we would not recommend that a commission be formed solely to oversee A.I.D.'s implementation of it.

Question: **$650 million environmental earmark**

The FY 1993 Foreign Operations appropriations bill earmarked $650 million of A.I.D.'s funds for environmental and energy activities. How did A.I.D. live up to this earmark (by region and function)? How much money is provided in President Clinton's FY 1994 budget request for environmental and energy activities?

Answer:

- **As of April 28, 1993, Fiscal Year 1993 environment and energy allocations (in $ millions) have been made but are not yet final. Below is a matrix that shows the present allocations by region and account:**

FY 1993
Estimated

Region	DA	ESF	DFA	SAI	NIS*	TOTAL
AFR			53.2			53.2
ASIA	65.7	7.4		3.5		76.6
EUR				39.3		39.3
LAC	62.0	24.0				86.0
NE	2.7	171.7				174.4
NIS					86.5	86.5
R&D	92.3					92.3
PRE	1.7					1.7
FHA	4.0					4.0
POL	1.9		0.1			2.0
Reserve	35.6					35.6
TOTAL	265.9	203.1	53.3	42.8	86.5	651.6

- **Fiscal Year 1994 numbers are still in flux. The Administration intends to increase overall funding for environmental programs by $25 million in FY 1994.**

Question: **Federal agency coordination**

How does A.I.D. coordinate its environmental activities with other federal agencies involved in international environmental work? What are the strengths and weaknesses of the involvement of domestic agencies in international environmental projects and how can coordination be improved?

Answer:

- Because of the integral nature of A.I.D.'s environment and development programs with U.S. foreign policy we have always

worked closely at all levels with the State Department, both in Washington and with the embassies overseas.

- Collaboration with domestic agencies on environmental matters has been through direct contracting for their services to assist in implementing A.I.D. projects overseas, and through interagency working groups to coordinate their international programs with ours.

- The strengths of domestic agencies in international environmental projects are:

  -- They have very large numbers of technical environmental experts, many of whom have some degree of international experience.

  -- They have some funds for international environmental projects which can be coordinated with A.I.D. programs to enhance the impact of the overall U.S. effort.

  The weaknesses of domestic agencies are:

  -- Coordination of programs funded for different purposes is frequently cumbersome. Without good coordination the U.S. government does not always speak with one voice on international environmental programs.

  -- They do not have the depth of institutional and staff-level international experience, both in general and specifically in environmental activities, that A.I.D. has.

- Recent experience in facilitating Agency coordination through legislation includes the 1991 Foreign Assistance Appropriations Act, which specifically requires the Forest Service to obtain prior A.I.D. concurrence on any of their activities in A.I.D. assisted countries. Experience to date shows this has not been a hindrance to USFS work; rather it has brought USFS and A.I.D. closer together in jointly implementing a U.S. program of forestry assistance.

- A second example is the Energy Policy Act of 1992, which directs the Department of Energy to implement developmentally sound energy and environmental projects through A.I.D. A.I.D. and DOE have agreed on a draft Memorandum of Understanding concerning implementation of this Act, which is being reviewed in each agency before the Administrator and the Secretary, respectively, are asked to sign.

PSIP

Question: Now that the PRE Bureau has been eliminated, how does the Agency plan to phase out the Private Sector Investment Program?

Answer:

- No final decisions have been made yet about the future of the PRE Bureau. We estimate that the portfolio of existing commitments under the PSIP program will have to be phased down over time.

MICROENTERPRISE

Question: **Program implementation**

Given the President's personal interest in microenterprise development programs, what will be the overall plan for implementation of the program during his Administration?

Answer:

- A.I.D. proposes to maintain its longstanding commitment to leadership in microenterprise development. A.I.D. has supported recent innovations in making microenterprise projects more sustainable.

- Because the obstacles to small business development are many and vary from country to country, A.I.D. works in a variety of ways to support microenterprise development. These include (1) strengthening banks and other financial institutions as lenders and mobilizers of savings from borrower communities; (2) encouraging policy, institutional and regulatory reforms that enhance microenterprise competitiveness and access to productive resources; and (3) experimentation with alternative forms to reach the poorest potential clients, such as through village banking activities.

- The Agency believes creating employment opportunities is a fundamental requirement for economic growth and sustainable development. The informal sector is a critical source of job creation through its micro- and small enterprise development activities.

- Given overall funding constraints Agency spending on microenterprise development is likely to level off in the next few years; however, A.I.D. expects that the impact through the above-mentioned leveraged interventions will

benefit growing numbers of micro-entrepreneurs, including women and the very poor.

- A.I.D. expects that the Administrator will examine the appropriate level and type of support for these activities. This Administration is fully committed to consultation with Congress and other groups such as private voluntary organizations.

Question: Obstacles

What are the obstacles A.I.D. has faced in operating its microenterprise program?

Answer:

- There are two principal issues which are now constraining the growth of A.I.D.'s microenterprise program:

  -- Section 599(c): Section 599(c) of the FY 1993 appropriations act requires that A.I.D. avoid contributing to the violation of "internationally recognized workers rights." This requirement has had a negative effect on proposed initiatives to focus greater assistance on micro-, small and informal enterprise development projects. Observance of such formal international labor standards is notably lacking in the informal sector and thus A.I.D. missions cannot make the certification required by statute.

  -- Shrinking "discretionary" budget, combined with heavy alternative earmarking: The heavy earmarking contained in the FY 1993 appropriations bill placed competing demands on the "discretionary" A.I.D. budget.

Question: Program management

Now that the PRE Bureau has been disbanded, will the Agency allow the microenterprise program to be managed from the central bureau as requested by the development community?

Answer:

- No organizational decisions have yet been made regarding specific bureaus or offices within A.I.D. Therefore no decision has yet been made regarding the management of the microenterprise program. The Administration is committed to broad consultation and will be sensitive to the recommendations set forth by the private voluntary organizations as well as other development experts in the broad development community in its consideration of organizational options for A.I.D.

CENTER FOR TRADE AND INVESTMENT SERVICES

Question: **Reason for program**

Why was CTIS created?

Answer:

- The Center for Trade and Investment Services (CTIS) was created as part of A.I.D.'s 1990 "Business and Development Partnership Initiative." CTIS is part of the "Business and Development Network," through which A.I.D. engages U.S. private sector leaders, firms and organizations to mobilize U.S. resources and knowhow in support of development efforts which also have a beneficial impact on the U.S. economy. Basically, CTIS was created to fill a perceived information gap about business opportunities and A.I.D. activities in developing countries.

Question: **Services offered**

What does it offer in terms of service that other export promotion agencies don't offer?

Answer:

- CTIS is not an export promotion activity. It provides detailed information and counseling about business opportunities and A.I.D. activities in support of international private enterprise in A.I.D.-assisted countries. CTIS' goal is to promote greater business activity and stimulate economic development abroad through the establishment of increased business linkages between the U.S. and indigenous private sectors. Through A.I.D.'s "Development Information System," CTIS specialists can access detailed information about more than 70,000 projects worldwide. Since it began formal operations in September 1992, CTIS staff have provided information and guidance to more than 4,000 clients, eighty percent of whom represent small to medium-sized U.S. businesses.

Question: **Budget**

What is the budget?

Answer:

- A five-year, life-of-project amount of $12.0 million has been authorized. Of this amount, $1,035,000 has been obligated.

Question: Staffing

How is it staffed?

Answer:

- CTIS has four authorized direct-hire (General Business Specialist) positions at the GS-14 level. The direct hires are supported by six persons employed under contract to the Academy for Educational Development. The contractors consist of a Trade and Investment Manager, two Trade Specialists, a computer systems analyst, a research assistant and an administrative assistant. CTIS is supervised by the Deputy Director of the Office of International Business Development.

February 24, 1993

President William J. Clinton
The United States of America
1600 Pennsylvania Avenue, N.W.
Washington, D.C. 20500

Dear President Clinton,

Recently, you received a letter signed by members of Congress from both political parties expressing their support for funding microenterprise credit programs in the developing world. In their letter, the members of Congress said that a microenterprise development initiative, "akin to the creation of the Peace Corps and the Alliance for Progress, could be a hallmark of the Clinton Administration's foreign assistance program." We hope that you agree and request your support for such an initiative.

We represent some of the leading non-profit organizations implementing and advocating microenterprise credit programs through the application of community banking concepts. Collectively, we are reaching more than two million borrowers in the developing world. We know, as you do, that credit programs for the poor not only increase their incomes, but their sense of dignity and self-confidence. As you have noted, community banking can be a powerful tool for providing microenterprise credit whether it be in Arkansas, Bangladesh, South Africa or El Salvador.

Over a billion people in the developing world live in poverty, their entrepreneurial talents underutilized, their aspirations unfulfilled. Based on the successes to date, we are convinced that the U.S. could implement a microenterprise initiative on a massive scale over the next decade.

Our experience leads us to make several recommendations:

1) Microenterprise programs should be focused to address the needs of a broad spectrum of the population in developing countries. Yet, we agree with the recommendation of the Congressional letter that a significant portion of the allocated funds be set aside for "poverty lending" or those microenterprise programs that promote the self-employment of the very poor, especially women.

Contact Coordinator: Lawrence Yanovitch, FINCA, 901 King Street, Alexandria, VA. 22314
Tel: 703-836-5516, FAX: 703-836-5366

Since small loan sizes are a good indicator that the programs are reaching the very poor, one effective way of accomplishing this would be to assure that funds for poverty lending be used to finance programs where initial loans are no more than $150 and where no loan exceeds $300.

We consider it equally important, however, that microenterprise programs not focus only on the very poor. They must also serve the broad spectrum of the population in developing countries that lack access to financial services.

2) In light of the difficulties microenterprise organizations have had in obtaining adequate funding from AID missions, we recommend that a centrally managed Microenterprise Development Fund be established within the foreign assistance budget. A significant portion of these resources should be used to support the efforts of private voluntary and cooperative development organizations. The Fund would finance institutional development and technical assistance activities. It would also be used to provide capital for loans and equity investments in grassroots-focused financial institutions, and to leverage loans and equity investments from private sources.

3) In general, we believe that your Administration should give a high priority to working through organizations linked to the grassroots in implementing development programs. The restructuring of the foreign assistance program should include the creation of a specialized center, inside or outside of AID, which provides effective support to such organizations.

4) In order to assure accountability to the U.S. public, we recommend that relevant performance indicators be established to measure the effectiveness of microenterprise programs.

5) Finally, we recommend that your Administration facilitate negotiations between multi-lateral banking institutions and non-profit organizations in order to increase their financing of microenterprise programs.

The Cold War may be over, but the achievement of true peace has hardly begun. Never before has the world seen so many of its families trapped in severe poverty or so many of its children threatened by malnutrition. There can never be lasting security in the world if large portions of the population are marginalized from participating in the development of the global economy. Microenterprise development offers your Administration a proven tool which it can use in the U.S. foreign assistance program to simulate the growth of prosperity and pluralism in the world.

May we meet to discuss this proposal with the new AID administrator and other interested members of your Administration? We appreciate your consideration of our views and look forward to your response.

Sincerely,

William Burrus
Executive Director
ACCION International

Peter Gubser
President
American Near East Refugee Aid

Andrew Maguire
President
Appropriate Technology International

David Beckmann
President
Bread for the World

Michael Levett
President
Businesses for Social Responsibility

Philip Johnston
President
CARE

David Polanco
Executive Director
Centro de Apoyo a la Microempresa

Robert Lincoln Hancock
Chief Executive Officer
Enterprise Development International

Richard M. Williamson
Executive Director
FINCA International

Christopher Dunford
President
Freedom from Hunger

Muhammad Yunus
Managing Director
Grameen Bank

Alex Rondos
Executive Director
International Orthodox Christian Charities

Robert Graham
Chairman
Katalysis North South Development Partnership

Robert Scherer
President
National Cooperative Business Association

C.L. Mannings
Executive Director
OIC International

Eric B. Thurman
President
Opportunity International

Louis L. Mitchell
Chief Executive Officer
PACT

Peter Reitz
Executive Director
Pan American Foundation

Sam Harris
Executive Director
RESULTS

Charles MacCormack
President
Save the Children

Gil Crawford
Executive Director
Seed Capital Development Fund

G. A. Charbonneau
Chief Executive Officer
World Council of Credit Unions

Arthur Evans Gray, Jr.
Executive Director
World Relief

Congress of the United States
Washington, DC 20515

December 15, 1992

The Honorable Bill Clinton
President-Elect
Governor's Mansion
1800 Center Street
Little Rock, Arkansas 72206

Dear President-Elect Clinton:

As Members of Congress concerned about the need for reforming the U.S. foreign aid program, we would like to take this opportunity to share our thoughts with you on a policy initiative that can be a key element of a new foreign aid program.

Throughout your campaign, you addressed the need to move beyond the Cold War towards a new, bipartisan U.S. foreign policy focused on promoting worldwide economic growth and democratic development. We believe that microenterprise development, modeled after programs such as the Grameen Bank of Bangladesh with which you are familiar, holds the potential for capturing the energy and entrepreneurial talents of millions of the world's poor and forming the basis for economic and political empowerment throughout the developing world.

A microenterprise development initiative, akin to the creation of the Peace Corps and the Alliance for Progress, could be a hallmark of the Clinton Administration's foreign aid program. The initiative will produce tangible benefits for the U.S. by promoting economic self-sufficiency and growth within our developing world trading partners around the globe. Given your awareness and personal experience with microenterprise programs, such as Arkansas' Good Faith Fund, you know firsthand the value of programs that work from the bottom-up, rewarding self-sufficiency and giving the poor a stake in their economic pursuits. To quote Grameen's founder, Dr. Muhamad Yunus, "poverty can be seen as the denial of all human rights." A microenterprise initiative championed by the United States could have a dramatic "democratizing" impact on societies throughout the developing world as microentrepreneurs succeed in lifting themselves and their families out of poverty.

We are aware of a number of Congressional and non-government foreign aid reform initiatives now being presented -- all of which aim to address the new challenges and opportunities presented by the end of the Cold War. No matter what reform model you ultimately choose to follow, we believe that microenterprise development should be embedded into the strategy for attaining broad-based economic growth and democratic development.

We would like to put forward the following recommendations as the foundation of a bipartisan microenterprise development initiative:

1. Goal: To strengthen poverty lending and microenterprise development organizations in order to relieve the worst manifestations of poverty and enable the world's poorest individuals to earn their livelihood.

2. Program: The U.S. should develop a Microenterprise Development Fund within its foreign aid program designed to create and strengthen institutions that have a commitment and/or demonstrated track record in working with the poor. The assistance could take a number of forms, but focus should be on providing grant monies for lending capital and "soft loans" or grants for institutional strengthening to bring the benefits of the program to the greatest number of people. Our experience suggests that such a fund should maintain a poverty focus aimed at improving the lives of the poorest of the poor. We favor a program that segregates up to half of the funds targeted strictly for "poverty lending" activities, focused especially on reaching women borrowers.

3. Actors: The success of this program depends on building it from the bottom up. Giving the poor themselves a central role in planning and managing projects helps ensure long-term commitment and a "good fit" to the needs of the local community. The U.S. should work wherever possible in concert with other donor country aid agencies and with multilateral development institutions such as the World Bank and the international development banks.

4. Outcomes: Donor agencies should develop performance standards to measure success. Such factors such as number of borrowers reached; savings generated; percentage of loans reaching women; and other indicators could be used to measure success of microenterprise programs and institutions.

These recommendations build on legislative efforts that we have sponsored and supported over the past six years and provide the cornerstone of a foreign aid initiative that would command broad bipartisan support on Capitol Hill. The success of the Grameen Bank and other programs run by organizations such as Catholic Relief Services, FINCA, Opportunities International and Accion Internacional -- with loan repayment rates of 95% and higher -- rebut the "foreign aid giveaway" criticism. The anti-poverty focus, reliance on market mechanisms and success in fashioning self-sustaining economic development all serve to re-enforce the bipartisan consensus behind the worthiness of microenterprise development programs.

In the coming months, you will receive a number of suggestions concerning the future design of the U.S. foreign aid program. We want to work with your Administration to make sure that any new aid approach captures the full potential and promise of microenterprise development as a central component of our post-Cold War foreign aid strategy.

Thank you for your consideration of our views. We look forward to working with you.

Sincerely,

EDWARD F. FEIGHAN, M.C.

BENJAMIN A. GILMAN, M.C.

SAM GEJDENSON, M.C.

Dennis DeConcini

DENNIS DECONCINI, U.S.S.

TONY HALL, M.C.

BILL EMERSON, M.C.

SLADE GORTON, U.S.S.

STATEMENT OF SAM GEJDENSON
CHAIRMAN
SUBCOMMITTEE ON ECONOMIC POLICY, TRADE AND ENVIRONMENT
MARK-UP FOR FY 94 FOREIGN AID AUTHORIZATION

The Subcommittee meets today to mark-up our portion of the FY 94 Foreign Aid Authorization, including trade and aid, aid and international environment, and non-proliferation, particularly as it relates to export controls. On May 4, 1993, the Subcommittee held an extensive hearing on these issues at which we heard from private and public witnesses.

Pursuant to the directions of the Committee, the members have before them a series of recommendations on these three subject areas. The only exception to that is draft legislation on the Overseas Private Investment Corporation, put in this form due to the need for a total rewrite of that legislation and its complexity.

Let me briefly review what we have proposed in each of these areas. I will then open it up for amendment.

With respect to trade and aid, we would maintain the funding level for the Trade and Development Agency of $65 million passed last year in the Jobs Through Exports Act. We would add to that $300 million in non-earmarked ESF funds to establish a pilot program for grants and loan guarantees to fund capital projects.

Pursuant to concerns expressed by Mr. Rohrabacher, we have also provided for a study on the feasibility of obtaining reimbursement from companies which have received follow-on work as a result of a TDA grant.

As the Administration requested, we would provide Housing and Urban Programs with an authorization of $16.4 million to cover its subsidy costs for the housing guarantee program. We would also provide $8.4 million for administrative expenses, and $5 million for non-HIG technical assistance and infrastructure projects.

Pursuant to concerns raised by Mr. Roth, we provide for this office to consider raising its fees to lenders to offset claims.

We would also establish a Microenterprise Development Fund to promote sustainable financial and technical assistance institutions which serve the poor in the developing world. The resources of the fund shall be leveraged with those in the public and private sector.

The fund would be capitalized at $130 million and have three components: institutional development, credit, and research and evaluation. Capital made available through grants would require a matching component from the recipient.

Pursuant to the Administration's request and our longstanding concerns, we would eliminate the Private Sector Investment Program and preclude new lending or guarantees for FY 94. This program would also be precluded from renewing guarantee authority on prior commitments.

Regarding aid and the environment, consistent with the Administration's request, funding for AID's environment and energy activities would be increased by $25 million to a total of $675 million. AID would be permanently authorized to initiate conservation trust funds in developing countries to provide a sustainable source of

funding for conservation activities. Also, AID would be required to report to the Committee within two years on its incorporation into AID activities of the principles of the Agenda 21 plan issued at the 1992 Earth Summit in Rio de Janeiro.

With respect to the $50 million requested by the Administration for a Non-Proliferation and Disarmament Fund, and consistent with this request, no less than $8.1 million should be authorized for export control related activities. These funds would be used primarily for export control training to be conducted by the U.S. Government.

Will the Staff Director please read the policy recommendations?
-Without objection, the objections will be considered as read.

Are there any amendments?

POLICY RECOMMENDATIONS FOR FOREIGN ASSISTANCE FY 94

I. <u>TRADE AND AID</u>

A. THE OVERSEAS PRIVATE INVESTMENT CORPORATION (OPIC)
0 (See attached legislative text)

B. THE TRADE AND DEVELOPMENT AGENCY (TDA)

0 The funding levels for TDA in the Jobs Through Exports Act for fiscal year 1994 of $65 million shall be retained.

0 A pilot program shall be established within the TDA entitled the "Capital Projects Program", funded with $300 million from non-earmarked Economic Support Funds. TDA shall establish a guarantee program to further leverage its support of capital projects. TDA shall increase its staff by no more than 20 individuals to competently staff this new pilot program.

0 TDA shall use its grant and guarantee authority under the pilot program to create unique financing mechanisms such as completion guarantees and back-end guarantees in order to fill the "export finance gaps" experienced by exporters. To the greatest extent possible, grants and guarantees should be tied to U.S. procurement (consistent with O.E.C.D. guidelines).

0 TDA shall investigate the feasibility of obtaining reimbursement from grantees which have received follow-on work as a result of an original TDA grant. The study shall consider the amount of the follow on business in relation to the size of the grant. If reimbursement is feasible, such funds shall be retained by TDA and shall not be returned to the Treasury. The funds shall be used to offset the cost of TDA's grant programs.

C. THE HOUSING AND URBAN PROGRAMS OFFICE

0 This office shall be provided with an authorization of $16.407 million for FY 94 to cover the subsidy cost for a worldwide (non-Israel) housing guarantee program (HIG) level of $110 million. The office shall be further provided with an authorization of $8.407 million for administrative expenses. The Subcommittee directs the office to operate the HIG program in fewer countries, if necessary, in order for the program to operate in poorer countries (poorer countries require a higher subsidy allotment). The overall ceiling for all obligations shall not exceed $3 billion.

0 A separate authorization of $5 million shall be provided to this office for non-HIG programs. Currently, the Housing office offers a number of technical assistance services and infrastructure programs that are not guarantee related. These programs are directly associated with sustainable and sound development policy such as waste collection, sewage treatment and water purification.

0 The office shall consider raising its fees to lenders for housing

guarantees in an effort to offset claims.

D. MICROENTERPRISE POLICY RECOMMENDATIONS

o There shall be established within AID a centrally managed Microenterprise Development Fund. The purpose of the Fund shall be to catalyze the development of sustainable financial and technical assistance institutions which serve the poor in the developing world. The resources of the fund shall be leveraged with those of U.S. private voluntary organizations, other donor nations, multilateral development banks, private investors, local governments and local community funds.

o The resources of the Fund shall be primarily channeled through U.S. private voluntary organizations, credit unions, local non-governmental organizations and other grassroots organizations which have demonstrated a capacity to develop locally sustainable microenterprise service institutions. Accordingly, the Fund shall be managed through an office of AID with strong linkages to the private voluntary sector.

o The Fund shall have three components: institutional development, credit, and research and evaluation. No more than 5% of the fund should go to research and evaluation. Of the credit portion of the Fund, one half shall go to poverty lending (loans of $300 or less, with initial loans of $150 or less). The other half of the capital portion of the fund should have no loan cap restriction. The Fund shall be capitalized at $130 million. Sixty percent of borrowers should be women.

o Capital made available through grants shall require a matching component from the recipient organization in the form of loans, grants or savings generated from non-AID sources. AID shall be authorized to facilitate negotiations between these institutions and the Multilateral Development Banks for additional lines of credit.

o The institutional development component of the Fund shall be used to finance the institutional development activities of private voluntary organizations, credit unions, local non-governmental organizations and other grassroots organizations. This component shall also finance required training and technical assistance.

o Of the 5% of the Fund devoted to research and evaluation, AID shall develop a program which will evaluate project performance of all practitioners in this program, document "lessons learned" and research how microenterprise can be improved. Project evaluation of those practitioners receiving funding for poverty lending shall include data showing that initial loans are $150 or less and that no loans are over $300. Program evaluation shall also assess the total value of loans and other services which a recipient institution generates relative to the value of AID funding invested in the institution's operating expenses and overhead.

E. PRIVATE SECTOR INVESTMENT PROGRAM

o The Private Sector Investment Program shall be eliminated. No new

lending or guarantee authority for fiscal year 1994 shall be provided.

0 The PSIP shall be prohibited from renewing guarantee authority on prior commitments.

II. ENVIRONMENT

0 Consistent with the Administration's request, funding for AID's environment and energy activities shall be increased by $25 million to a total of $675 million.

0 AID shall be permanently authorized to initiate conservation trust funds in appropriate developing countries in order to provide a sustainable source of funding for conservation activities.

0 In order to restore U.S. leadership on the issue of global climate change, AID should increase its support for energy efficiency and renewable energy projects in the developing world. AID shall continue to be required under the Foreign Assistance Act to undertake such projects.

0 AID should increase the number of direct-hire staff in AID missions and in the regional bureaus with environment and energy expertise in order to increase the quality and quantity of AID assisted environment and energy projects. AID shall achieve this goal by using its existing authority to hire staff using program funds and by changing its recruitment patterns, and shall report to Congress within two years on the results of its efforts to achieve this goal.

0 In recognition of the importance of the Agenda 21 plan issued at the 1992 Earth Summit in Rio de Janeiro, AID shall report to the Committee within two years on its incorporation of Agenda 21 principles into AID activities.

III. NON-PROLIFERATION

0 Of the $50 million requested by the Administration for a Non-Proliferation and Disarmament Fund, no less than $8.1 million (also as requested by the Administration), should be authorized for export control related activities.

0 The $8.1 million should be used primarily for export control training to be conducted for foreign governments by the Departments of Commerce, State, Defense, and Energy and the Arms Control and Disarmament Agency. It should also be used to improve the harmonization of other nation's non-proliferation policies with U.S. policies; to provide financial and technical assistance to enforcement organizations in the Former Soviet Union and Eastern European countries to stem the potential for smuggling of nuclear materials out of the FSU and Eastern Europe; and to conduct technical studies to improve the effectiveness of the multilateral export control regimes including the Nuclear Suppliers Group, the Missile Technology Control Regime, and the Australia Group.

TITLE ___—OVERSEAS PRIVATE INVESTMENT CORPORATION

SEC. _01. SHORT TITLE.

This title may be cited as the "Overseas Private Investment Corporation Amendments Act of 1993".

SEC. _02. REAUTHORIZATION OF CORPORATION.

(a) IN GENERAL.—Title IV of chapter 2 of part I of the Foreign Assistance Act of 1961 (22 U.S.C. 2191 and following) is amended to read as follows:

"TITLE IV—OVERSEAS PRIVATE INVESTMENT CORPORATION

"SEC. 231. PURPOSE AND POLICY.

"(a) PURPOSE.—The Overseas Private Investment Corporation shall be an agency of the United States under the foreign policy guidance of the Secretary of State. The purpose of the Corporation is to promote sustainable economic development in developing countries and areas, and countries in transition from nonmarket to market economies, by mobilizing and facilitating the participation of the United States private sector.

"(b) ELIGIBILITY CRITERIA FOR PARTICIPATING COUNTRIES AND AREAS.—

"(1) IN GENERAL.—Countries or areas within countries may be eligible to receive insurance, rein-

surance, financing, or other financial support from the Corporation if—

"(A) that country has established diplomatic relations with the United States;

"(B) that country or area is a developing country or area, or a country in transition from a nonmarket to market economy; and

"(C) that country respects internationally recognized human rights.

"(2) PREFERENCE FOR CERTAIN COUNTRIES.—The Corporation shall, in conducting its activities, give preference to countries with per capita incomes of $1,196 or less in 1991 United States dollars; and restrict its activities in countries with per capita incomes of $5,190 or more in 1991 United States dollars (other than countries designated as beneficiary countries under section 212 of the Caribbean Basin Economic Recovery Act).

"(3) EXCEPTION.—In a case in which a country in which the Corporation is conducting activities no longer meets the criteria set forth in paragraph (1), the Corporation may continue to operate its programs in that country, but shall not extend any new insurance, reinsurance, or financing with respect to projects in which the government of that country is

involved as a partner, shareholder, director, manager, or otherwise.

"(c) GUIDELINES FOR ACTIVITIES OF OPIC.—In carrying out its purpose, the Corporation shall undertake—

"(1) to conduct insurance, reinsurance, and financing operations on a self-sustaining basis, taking into account in its financing operations the economic and financial soundness of projects;

"(2) to utilize private credit and investment institutions and the Corporation's guarantee authority as the principal means of mobilizing capital investment funds;

"(3) to broaden private participation by selling its direct investments to private investors whenever it can appropriately do so on satisfactory terms;

"(4) to conduct its insurance operations with due regard to principles of risk management, including efforts to share its insurance risks and reinsurance risks;

"(5) to consider in the conduct of its operations the extent to which the governments of eligible countries are receptive to private enterprise, domestic and foreign, and their willingness and ability to maintain conditions which enable private enterprise

to make its full contribution to the development process;

"(6) to foster private initiative and competition and discourage monopolistic practices;

"(7) to further to the greatest degree possible, in a manner consistent with its goals, the balance-of-payments and employment objectives of the United States;

"(8) to consider in the conduct of its operations the extent to which the governments of eligible countries respect human rights, labor rights, and the need to support sound environmental practices and policies;

"(9) to conduct its activities in consonance with the international trade, investment, and financial policies of the United States Government, and to seek to support those developmental projects having positive trade benefits for the United States; and

"(10) to advise and assist, within its field of competence, interested agencies of the United States and other organizations, both public and private, national and international, with respect to projects and programs relating to the development of private enterprise in eligible countries and areas.

"SEC. 232. STOCK OF THE CORPORATION; ORGANIZATION AND MANAGEMENT.

"(a) STOCK.—The Secretary of the Treasury shall hold the capital stock of the Corporation.

"(b) STRUCTURE OF THE CORPORATION.—The Corporation shall have a Board of Directors, a President, an Executive Vice President, and such other officers and staff as the Board of Directors may determine.

"(c) BOARD OF DIRECTORS.—

"(1) IN GENERAL.—All powers of the Corporation shall vest in and be exercised by or under the authority of its Board of Directors (hereinafter in this title referred to as 'the Board') which shall consist of 15 Directors (including the Chair, the Executive Vice Chair, and the Vice Chair), with 8 Directors constituting a quorum for the transaction of business.

"(2) COMPOSITION OF THE BOARD.—

"(A) CHAIR.—The Chair of the Board shall be the President of the Corporation, ex officio.

"(B) EXECUTIVE VICE CHAIR.—The Executive Vice Chair of the Board shall be the Administrator of the Agency for International Development, ex officio.

"(C) VICE CHAIR.—The Vice Chair of the Board shall be the United States Trade Representative, ex officio, or, if so designated by the United States Trade Representative, a Deputy United States Trade Representative.

"(D) PUBLIC SECTOR DIRECTORS.—(i) In addition to the directors provided for in subparagraphs (A), (B), and (C), four Directors who are officers or employees of the Government of the United States, including an officer or employee of the Department of Labor, shall be designated by and shall serve at the pleasure of the President of the United States.

"(ii) The Directors designated under this subparagraph shall receive no additional compensation by virtue of their service as such a Director.

"(E) PRIVATE SECTOR DIRECTORS.—(i) Eight Directors who are not officers or employees of the Government of the United States shall be appointed by the President of the United States, by and with the advice and consent of the Senate.

Of these, at least—

"(I) one shall be experienced in small business,

"(II) one shall be experienced in organized labor,

"(III) one shall be experienced in cooperatives, and

"(IV) one shall be experienced in social and economic development issues.

"(ii) Each Director appointed under this subparagraph shall be appointed for a term of not more than 3 years. The terms of not more than 3 such Directors shall expire in any 1 year. Such Directors shall serve until their successors are appointed and qualified and may be reappointed to subsequent terms.

"(iii) Each Director appointed under this subparagraph shall be compensated at the daily equivalent of the annual rate of pay in effect for level IV of the Executive Schedule under section 5315 of title 5, United States Code, for each day (including travel time) during which such Director is actually engaged in the business of the Corporation, and may be paid travel or transportation expenses to the extent authorized for employees serving intermittently in the

Government service under section 5703 of title 5, United States Code. Any such Director may waive any such compensation.

"(d) APPOINTMENT OF THE PRESIDENT.—The President of the Corporation shall be appointed by the President of the United States, by and with the advice and consent of the Senate, and shall serve at the pleasure of the President. In making such appointment, the President shall take into account the private business experience of the appointee. The President of the Corporation shall be its Chief Executive Officer and shall be responsible for the operations and management of the Corporation, subject to bylaws and policies established by the Board.

"(e) OFFICERS AND STAFF.—

"(1) EXECUTIVE VICE PRESIDENT.—The Executive Vice President of the Corporation shall be appointed by the President of the United States, by and with the advice and consent of the Senate, and shall serve at the pleasure of the President.

"(2) OTHER OFFICERS AND STAFF.—(A) The Corporation may appoint such other officers and such employees (including attorneys) and agents as the Corporation considers appropriate.

"(B) The officers, employees, and agents appointed under this subsection shall have such functions as the Corporation may determine.

"(C) Of the officers, employees, and agents appointed under this paragraph, 20 may be appointed without regard to the provisions of title 5, United States Code, governing appointments in the competitive service, may be compensated without regard to the provisions of chapter 51 or subchapter III of chapter 53 of such title, and shall serve at the pleasure of the Corporation.

"(D) Under such regulations as the President may prescribe, any individual appointed under subparagraph (C) may be entitled, upon removal (except for cause) from the position to which the appointment was made, to reinstatement to the position occupied by that individual at the time of appointment or to a position of comparable grade and pay.

"SEC. 233. INVESTMENT INSURANCE, FINANCING, AND OTHER PROGRAMS.

"(a) INVESTMENT INSURANCE.—

"(1) RISKS FOR WHICH INSURANCE ISSUED.—The Corporation is authorized to issue insurance, upon such terms and conditions as the Corporation may determine, to eligible investors assuring protec-

tion in whole or in part against any or all of the following risks with respect to projects which the Corporation has approved:

"(A) Inability to convert into United States dollars other currencies, or credits in such currencies, received as earnings or profits from the approved project, as repayment or return of the investment in the project, in whole or in part, or as compensation for the sale or disposition of all or any part of the investment.

"(B) Loss of investment, in whole or in part, in the approved project due to expropriation or confiscation by action of a foreign government.

"(C) Loss due to war, revolution, insurrection, or civil strife.

"(D) Loss due to business interruption caused by any of the risks set forth in subparagraphs (A), (B), and (C).

"(2) RISK SHARING ARRANGEMENTS WITH FOREIGN GOVERNMENTS AND MULTILATERAL ORGANIZATIONS.—Recognizing that major private investments in eligible countries or areas are often made by enterprises in which there is multinational participation, including significant United States private par-

ticipation, the Corporation may make arrangements with foreign governments (including agencies, instrumentalities, and political subdivisions thereof) and with multilateral organizations and institutions for sharing liabilities assumed under investment insurance for such investments and may, in connection with such arrangements, issue insurance to investors not otherwise eligible for insurance under this title, except that—

"(A) liabilities assumed by the Corporation under the authority of this paragraph shall be consistent with the purposes of this title, and

"(B) the maximum share of liabilities so assumed shall not exceed the proportionate participation by eligible investors in the project.

"(3) MAXIMUM CONTINGENT LIABILITY WITH RESPECT TO SINGLE INVESTOR.—Not more than 10 percent of the maximum contingent liability of investment insurance which the Corporation is permitted to have outstanding under section 235(a)(1) shall be issued to a single investor.

"(4) REPORTS ON INSURANCE ISSUED FOR BUSINESS INTERRUPTION OR CIVIL STRIFE.—(A) In each instance in which a significant expansion is proposed in the type of risk to be insured under the

definition of 'civil strife' or 'business interruption', the Corporation shall, at least 60 days before such insurance is issued, submit to the Committee on Foreign Affairs and the Committee on Appropriations of the House of Representatives and the Committee on Foreign Relations and the Committee on Appropriations of the Senate a report with respect to such insurance.

"(B) Each such report shall include a thorough analysis of the risks to be covered, anticipated losses, and proposed rates and reserves and, in the case of insurance for loss due to business interruption, an explanation of the underwriting basis upon which the insurance is to be offered.

"(C) Any such report with respect to insurance for loss due to business interruption shall be considered in accordance with the procedures applicable to reprogramming notifications pursuant to section 634A.

"(b) INVESTMENT GUARANTEES.—

"(1) AUTHORITY.—The Corporation is authorized to issue to eligible investors guarantees of loans and other investments made by such investors assuring against loss due to such risks and upon such

terms and conditions as the Corporation may determine, subject to paragraphs (2), (3), and (4).

"(2) GUARANTEES ON OTHER THAN LOAN INVESTMENTS.—A guarantee issued under paragraph (1) on other than a loan investment may not exceed 75 percent of such investment.

"(3) LIMIT ON AMOUNT OF INVESTMENT GUARANTEED.—Except for loan investments for credit unions made by eligible credit unions or credit union associations, the aggregate amount of investment (exclusive of interest and earnings) for which guarantees are issued under paragraph (1) with respect to any project shall not exceed, at the time of issuance of any such guarantee, 75 percent of the total investment committed to any such project as determined by the Corporation. Such determination by the Corporation shall be conclusive for purposes of the Corporation's authority to issue any such guarantee.

"(4) MAXIMUM CONTINGENT LIABILITY WITH RESPECT TO SINGLE INVESTOR.—Not more than 15 percent of the maximum contingent liability of investment guarantees which the Corporation is permitted to have outstanding under section 235(a)(2) may be issued to a single investor.

"(c) DIRECT INVESTMENT.—

"(1) IN GENERAL.—The Corporation is authorized to make loans in United States dollars, repayable in dollars, and to make loans in foreign currencies, to firms privately owned or of mixed private and public ownership, upon such terms and conditions as the Corporation may determine. Loans may be made under this subsection only for projects that are sponsored by or significantly involve United States small business or cooperatives.

"(2) USE OF LOAN FOR NEW TECHNOLOGIES, PRODUCTS, OR SERVICES.—The Corporation may designate up to 25 percent of any loan under this subsection for use in the development or adaptation in the United States of new technologies or new products or services that are to be used in the project for which the loan is made and are likely to contribute to the economic or social development of eligible countries or areas.

"(d) INVESTMENT ENCOURAGEMENT.—The Corporation is authorized to initiate and support through financial participation, incentive grant, or otherwise, and on such terms and conditions as the Corporation may determine, the identification, assessment, surveying, and promotion of private investment opportunities, using wher-

ever feasible and effective the facilities of private investors, except that the Corporation shall not finance any survey to ascertain the existence, location, extent, or quality of oil or gas resources.

"(e) SPECIAL ACTIVITIES.—The Corporation is authorized to administer and manage special projects and programs, including programs of financial and advisory support, which provide private technical, professional, or managerial assistance in the development of human resources, skills, technology, capital savings, intermediate financial and investment institutions, and cooperatives. The funds for these projects and programs may, with the Corporation's concurrence, be transferred to it for such purposes under the authority of section 632(a) or from other sources, public or private.

"(f) OTHER INSURANCE FUNCTIONS.—

"(1) IN GENERAL.—The Corporation is authorized—

"(A) to make and carry out contracts of insurance or reinsurance, or agreements to associate or share risks, with insurance companies, financial institutions, any other persons, or groups thereof, and

"(B) to employ such insurance companies, financial institutions, other persons, or groups,

where appropriate, as its agent, or to act as their agent, in the issuance and servicing of insurance, the adjustment of claims, the exercise of subrogation rights, the ceding and accepting of reinsurance, and in any other matter incident to an insurance business,

except that such agreements and contracts shall be consistent with the purposes of the Corporation set forth in section 231 and shall be on equitable terms.

"(2) RISK-SHARING AGREEMENTS.—The Corporation is authorized to enter into pooling or other risk-sharing agreements with multinational insurance or financing agencies or groups of such agencies.

"(3) OWNERSHIP INTEREST IN RISK-SHARING ENTITIES.—The Corporation is authorized to hold an ownership interest in any association or other entity established for the purposes of sharing risks under investment insurance.

"(4) REINSURANCE OF CERTAIN LIABILITIES.—The Corporation is authorized to issue, upon such terms and conditions as it may determine, reinsurance of liabilities assumed by other insurers or groups thereof with respect to risks referred to in subsection (a)(1).

"(5) LIMITATION ON REINSURANCE.—The amount of reinsurance of liabilities under this title which the Corporation may issue shall not in the aggregate exceed at any one time an amount equal to the amount authorized for the maximum contingent liability outstanding at any one time under section 235(a)(1). All reinsurance issued by the Corporation under this subsection shall require that the reinsured party retain for his or her own account specified portions of liability, whether first loss or otherwise.

"(6) ENHANCING PRIVATE POLITICAL RISK INSURANCE INDUSTRY.—

"(A) COOPERATIVE PROGRAMS.—In order to encourage greater availability of political risk insurance for eligible investors by enhancing the private political risk insurance industry in the United States, and to the extent consistent with this title, the Corporation shall undertake programs of cooperation with such industry, and in connection with such programs may engage in the following activities:

"(i) Utilizing its statutory authorities, encourage the development of associations,

pools, or consortia of United States private political risk insurers.

"(ii) Share insurance risks (through coinsurance, contingent insurance, or other means) in a manner that is conducive to the growth and development of the private political risk insurance industry in the United States.

"(iii) Notwithstanding section 237(e), upon the expiration of insurance provided by the Corporation for an investment, enter into risk-sharing agreements with United States private political risk insurers to insure any such investment; except that, in cooperating in the offering of insurance under this clause, the Corporation shall not assume responsibility for more than 50 percent of the insurance being offered in each separate transaction.

"(B) ADVISORY GROUP.—

"(i) ESTABLISHMENT AND MEMBERSHIP.—The Corporation shall establish a group to advise the Corporation on the development and implementation of the cooperative programs under this paragraph.

The group shall be appointed by the Board and shall be composed of up to 12 members, including the following:

"(I) Up to 7 persons from the private political risk insurance industry, of whom no fewer than 2 shall represent private political risk insurers, 1 shall represent private political risk reinsurers. and 1 shall represent insurance or reinsurance brokerage firms.

"(II) Up to 4 persons, other than persons described in subclause (I), who are purchasers of political risk insurance.

"(ii) FUNCTIONS.—The Corporation shall call upon members of the advisory group, either collectively or individually, to advise it regarding the capability of the private political risk insurance industry to meet the political risk insurance needs of United States investors, and regarding the development of cooperative programs to enhance such capability.

"(iii) MEETINGS.—The advisory group shall meet at least annually. The Corporation may from time to time convene meetings of selected members of the advisory group to address particular questions requiring their specialized knowledge.

"(iv) FEDERAL ADVISORY COMMITTEE ACT.—The advisory group shall not be subject to the Federal Advisory Committee Act (5 U.S.C. App.).

"(g) EQUITY FINANCE PROGRAM.—

"(1) AUTHORITY FOR EQUITY FINANCE PROGRAM.—The Corporation is authorized to establish an equity finance program under which it may, on the limited basis prescribed in paragraphs (2) through (4), purchase, invest in, or otherwise acquire equity or quasi-equity securities of any firm or entity, upon such terms and conditions as the Corporation may determine, for the purpose of providing capital for any project which is consistent with the provisions of this title, except that—

"(A) the aggregate amount of the Corporation's equity investment with respect to any project shall not exceed 30 percent of the aggregate amount of all equity investment made

with respect to such project at the time that the Corporation's equity investment is made, except for securities acquired through the enforcement of any lien, pledge, or contractual arrangement as a result of a default by any party under any agreement relating to the terms of the Corporation's investment; and

"(B) the Corporation's equity investment under this subsection with respect to any project, when added to any other investments made or guaranteed by the Corporation under subsection (b) or (c) with respect to such project, shall not cause the aggregate amount of all such investment to exceed, at the time any investment is made or guaranteed by the Corporation, 75 percent of the total investment committed to such project as determined by the Corporation.

The determination of the Corporation under subparagraph (B) shall be conclusive for purposes of the Corporation's authority to make or guarantee any such investment.

"(2) ADDITIONAL CRITERIA.—In making investment decisions under this subsection, the Corporation shall give preferential consideration to

projects sponsored by or significantly involving United States small business or cooperatives. The Corporation shall also consider the extent to which the Corporation's equity investment will assist in obtaining the financing required for the project.

"(3) DISPOSITION OF EQUITY INTEREST.—Taking into consideration, among other things, the Corporation's financial interests and the desirability of fostering the development of local capital markets in eligible countries or areas, the Corporation shall endeavor to dispose of any equity interest it may acquire under this subsection within a period of 10 years from the date of acquisition of such interest.

"(4) CONSULTATIONS WITH CONGRESS.—The Corporation shall consult annually with the Committee on Foreign Affairs and the Committee on Appropriations of the House of Representatives and the Committee on Foreign Relations and the Committee on Appropriations of the Senate on the implementation of the equity finance program established under this subsection.

"SEC. 234. GUIDELINES AND CRITERIA FOR OPIC SUPPORT.

"(a) DEVELOPMENT GUIDELINES.—

"(1) CRITERIA.—The Corporation, in determining whether to provide insurance, reinsurance, or fi-

nancing for a project shall be guided by the economic and social development impact and benefits of such a project and the ways in which such a project complements, or is compatible with, other development assistance programs or projects of the United States or other donors.

"(2) DEVELOPMENT IMPACT PROFILE.—In order to carry out the policy set forth in paragraph (1), the Corporation shall prepare and maintain, for each investment project it insures, reinsures, or finances, a development impact profile consisting of data appropriate to measure the projected and actual effects of such project on development.

"(b) SMALL BUSINESS DEVELOPMENT.—

"(1) BROADENED PARTICIPATION BY SMALL BUSINESSES.—The Corporation shall undertake, in cooperation with appropriate departments, agencies, and instrumentalities of the United States as well as private entities and others, to broaden the participation of United States small business, cooperatives, and other small United States investors in the development of small private enterprise in eligible countries or areas.

"(2) PREFERENTIAL CONSIDERATION.—Notwithstanding the requirements of section 231(c)(1),

and on such terms and conditions as the Corporation may determine through loans, grants, or other programs authorized by section 233, the Corporation shall undertake, to the maximum degree possible consistent with its purposes—

"(A) to give preferential consideration in its investment insurance, reinsurance, and guarantee activities to investment projects sponsored by or involving United States small business; and

"(B) to maintain the proportion of projects sponsored by or significantly involving United States small business at not less than 30 percent of all projects insured, reinsured, or guaranteed by the Corporation.

"(c) ENVIRONMENTAL CONSIDERATIONS.—

"(1) ENVIRONMENTAL, HEALTH, OR SAFETY HAZARD.—The Corporation shall refuse to insure, reinsure, or finance any investment in connection with a project which the Corporation determines will pose an unreasonable or major environmental, health, or safety hazard, or will result in the significant degradation of national parks or similar protected areas.

"(2) RESOURCE SUSTAINABLE DEVELOPMENT.—The Corporation, in determining whether to provide insurance, reinsurance, or financing for a project, shall ensure that the project is consistent with the objectives set forth in sections 117 (relating to environment and natural resources), 118 (relating to tropical forests), and 119 (relating to endangered species).

"(3) ENVIRONMENTAL IMPACT STATEMENTS AND ASSESSMENTS.—The requirements of section 117(c) relating to environmental impact statements and environmental assessments shall apply to any investment which the Corporation insures, reinsures, or finances under this title in connection with a project in a country.

"(4) NOTIFICATION OF FOREIGN GOVERNMENTS.—Before finally providing insurance, reinsurance, or financing under this title for any environmentally sensitive investment in connection with a project in a country, the Corporation shall notify appropriate government officials of that country of—

"(A) all guidelines and other standards adopted by the International Bank for Reconstruction and Development and any other international organization that relate to the public

health or safety or the environment and are applicable to the project; and

"(B) to the maximum extent practicable, any restriction, under any law of the United States, that relates to public health or safety or the environment and would apply to the project if the project were undertaken in the United States.

The notification under the preceding sentence shall include a summary of the guidelines, standards, and restrictions referred to in subparagraphs (A) and (B), and may include any environmental impact statement, assessment, review, or study prepared with respect to the investment pursuant to paragraph (3).

"(5) CONSIDERATION OF COMMENTS RECEIVED.—Before finally providing insurance, reinsurance, or financing for any investment subject to paragraph (4), the Corporation shall take into account any comments it receives on the project involved.

"(d) WORKER RIGHTS.—

"(1) LIMITATION ON OPIC ACTIVITIES.—The Corporation may insure, reinsure, or finance a project only if the country in which the project is to

be undertaken is taking steps to adopt and implement laws that extend internationally recognized worker rights, as defined in section 502(a)(4) of the Trade Act of 1974 (19 U.S.C. 2462(a)(4)), to workers in that country (including any designated zone in that country). The Corporation shall also include the following language, in substantially the following form, in all contracts which the Corporation enters into with eligible investors to provide financial support under this title:

"'The investor agrees not to take actions to prevent employees of the foreign enterprise from lawfully exercising their right of association and their right to organize and bargain collectively. The investor further agrees to observe applicable laws relating to a minimum age for employment of children, acceptable conditions of work with respect to minimum wages, hours of work, and occupational health and safety, and not to use forced labor. The investor is not responsible under this paragraph for the actions of a foreign government.'.

"(2) USE OF ANNUAL REPORTS ON WORKERS RIGHTS.—The Corporation shall, in making its determinations under paragraph (1), use the reports submitted to the Congress pursuant to section

505(c) of the Trade Act of 1974 (19 U.S.C. 2465(c)).

"(3) WAIVER.—Paragraph (1) shall not prohibit the Corporation from providing any insurance, reinsurance, or financing with respect to a country if the President determines that such activities by the Corporation would be in the national economic interests of the United States. Any such determination shall be reported in writing to the Committee on Foreign Affairs of the House of the Representatives and the Committee on Foreign Relations of the Senate, together with the reasons for the determination.

"(e) HUMAN RIGHTS.—The Corporation shall take into account in the conduct of its programs in a country, in consultation with the Secretary of State, all available information about observance of and respect for human rights and fundamental freedoms in such country and the effect the operation of such programs will have on human rights and fundamental freedoms in such country. The provisions of section 116 shall apply to any insurance, reinsurance, or financing provided by the Corporation for projects in a country, except that in addition to the exception set forth in subsection (a) of such section, the Corporation may support a project if the national security interest so requires.

"(f) HARM TO EMPLOYMENT IN THE UNITED STATES.—

"(1) REPLACEMENT OF UNITED STATES PRODUCTION.—(A) The Corporation shall refuse to insure, reinsure, or finance an investment if the Corporation determines that such investment is likely to cause the investor (or the sponsor of an investment project in which the investor is involved) significantly to reduce the number of the investor's or sponsor's employees in the United States because the investor or sponsor is replacing his or her United States production with production from such investment, and the production from such investment involves substantially the same product for substantially the same market as the investor's or sponsor's United States production.

"(B) If the Corporation determines that an investment is not likely to have the effects described in subparagraph (A), the Corporation shall monitor conformance with the representations made by the investor on which the Corporation relied in making that determination.

"(2) REDUCTION OF EMPLOYEES IN THE UNITED STATES.—The Corporation shall refuse to insure, reinsure, or finance an investment if the Corporation

determines that such investment is likely to cause a significant reduction in the number of employees in the United States.

"(g) PERFORMANCE REQUIREMENTS.—The Corporation shall refuse to insure, reinsure, or finance an investment which is subject to performance requirements which would reduce substantially the positive trade benefits likely to accrue to the United States from the investment.

"(h) PROHIBITED TRADE PRACTICES.—

"(1) PAYMENTS TO VIOLATORS BARRED.—No payment may be made under any insurance or reinsurance which is issued under this title on or after April 24, 1978, for any loss occurring with respect to a project, if the preponderant cause of such loss was an act by the investor seeking payment under this title, by a person possessing majority ownership and control of the investor at the time of the act, or by any agent of such investor or controlling person, and a court of the United States has entered a final judgment that such act constituted a violation of section 30A of the Securities Exchange Act of 1934 or section 104 of the Foreign Corrupt Practices Act of 1977.

"(2) REGULATIONS.—The Corporation shall have in effect regulations setting forth appropriate conditions under which any person who has been finally determined by a court of the United States to have violated section 30A of the Securities Exchange Act of 1934 or section 104 of the Foreign Corrupt Practices Act of 1977 shall be suspended, for a period of not more than 5 years, from eligibility to receive any insurance, reinsurance, financing, or other financial support authorized by this title, if that violation related to a project insured, reinsured, financed, or otherwise supported by the Corporation under this title.

"(i) FRAUD OR MISREPRESENTATION.—No payment may be made under any guarantee, insurance, or reinsurance issued under this title for any loss arising out of fraud or misrepresentation for which the party seeking payment is responsible.

"(j) PENALTIES FOR FRAUD.—Whoever knowingly makes any false statement or report, or willfully overvalues any land, property, or security, for the purpose of influencing in any way the action of the Corporation with respect to any insurance, reinsurance, guarantee, loan, equity investment, or other activity of the Corporation under section 233 or any change or extension of

any such insurance, reinsurance, guarantee, loan, equity investment, or activity, by renewal, deferment of action or otherwise, or the acceptance, release, or substitution of security therefor, shall be fined not more than $1,000,000 or imprisoned not more than 30 years, or both.

"(k) PUBLIC HEARINGS.—The Board shall hold at least 1 public hearing each year in order to afford an opportunity for any person to present views as to whether the Corporation is carrying out its activities in accordance with section 231 and this section or whether any investment in a particular country should have been or should be extended insurance, reinsurance, or financing under this title.

"SEC. 235. ISSUING AUTHORITY, DIRECT INVESTMENT AUTHORITY, EQUITY FUND, AND RESERVES.

"(a) ISSUING AUTHORITY.—

"(1) INSURANCE.—The maximum contingent liability outstanding at any one time pursuant to insurance issued under section 233(a) shall not exceed in the aggregate $10,000,000,000.

"(2) GUARANTEES AND DIRECT LOANS.—(A) The maximum contingent liability outstanding at any one time pursuant to guarantees issued under section 233(b) shall not exceed in the aggregate $3,500,000,000.

"(B) Subject to spending authority provided in appropriations Acts, pursuant to section 504(b) of the Federal Credit Reform Act of 1990, the Corporation is authorized to transfer such sums as are necessary from its noncredit account revolving fund to pay for the subsidy cost of a program level for the guarantee and direct loan programs under subsections (b) and (c) of section 233 of—

"(i) $850,000,000 for fiscal year 1994; and

"(ii) $1,000,000,000 for fiscal year 1995.

"(3) TERMINATION OF AUTHORITY.—The authority of subsections (a) and (b) of section 233 shall continue until September 30, 1995.

"(b) CREATION OF FUND FOR ACQUISITION OF EQUITY.—The Corporation is authorized to establish a revolving fund to be available solely for the purposes specified in section 233(g) and to make transfers to the fund of a total of $45,000,000 (less amounts transferred to the fund before the effective date of the Overseas Private Investment Corporation Amendments Act of 1993) from its noncredit account revolving fund. The Corporation shall transfer to the fund in each fiscal year all amounts received by the Corporation during the preceding fiscal year as income on securities acquired under section 233(g), and

from the proceeds on the disposition of such securities. Purchases of, investments in, and other acquisitions of equity from the fund are authorized for any fiscal year only to the extent or in such amounts as are provided in advance in appropriations Acts or are transferred to the Corporation pursuant to section 632(a) of this Act.

"(c) INSURANCE RESERVES.—

"(1) MAINTENANCE AND PURPOSES.—The Corporation shall maintain insurance reserves. Such reserves shall be available for the discharge of liabilities, as provided in subsection (d), until such time as all such liabilities have been discharged or have expired or until all such reserves have been expended in accordance with the provisions of this section.

"(2) FUNDING.—The insurance reserves shall consist of—

"(A) any funds in the insurance reserves of the Corporation on the effective date of the Overseas Private Investment Corporation Amendments Act of 1993,

"(B) amounts transferred to the reserves pursuant to this title, and

"(C) such sums as are appropriated pursuant to subsection (e) of this section for such purposes.

"(d) ORDER OF PAYMENTS TO DISCHARGE LIABILITIES.—Any payment made to discharge liabilities under investment insurance or reinsurance issued under section 233 or under predecessor guarantee authority shall be paid first out of the insurance reserves, as long as such reserves remain available, and thereafter out of funds made available pursuant to subsection (e) of this section. Any payments made to discharge liabilities under guarantees issued under section 233(b) shall be paid in accordance with the Federal Credit Reform Act of 1990.

"(e) AUTHORIZATION OF APPROPRIATIONS.—

"(1) AUTHORIZATION.—Subject to paragraph (2), there are authorized to be appropriated to the Corporation, to remain available until expended, such amounts as may be necessary from time to time to replenish or increase the insurance reserves, to discharge the liabilities under insurance or reinsurance issued by the Corporation or issued under predecessor guarantee authority, or to discharge obligations of the Corporation purchased by the Secretary of the Treasury pursuant to subsection (f).

"(2) LIMITATION ON APPROPRIATIONS.—No appropriation shall be made under paragraph (1) to augment the insurance reserves until the amount of funds in the insurance reserves is less than

$25,000,000. Any appropriations to augment the insurance reserves shall then only be made either pursuant to specific authorization enacted after the date of enactment of the Overseas Private Investment Corporation Amendments Act of 1974, or to satisfy the full faith and credit provision of section 237(c).

"(f) ISSUANCE OF OBLIGATIONS.—In order to discharge liabilities under investment insurance or reinsurance, the Corporation is authorized to issue from time to time for purchase by the Secretary of the Treasury its notes, debentures, bonds, or other obligations; except that the aggregate amount of such obligations outstanding at any one time may not exceed $100,000,000. Any such obligation shall be repaid to the Treasury within 1 year after the date of issue of such obligation. Any such obligation shall bear interest at a rate determined by the Secretary of the Treasury, taking into consideration the current average market yield on outstanding marketable obligations of the United States of comparable maturities during the month preceding the issuance of any obligation authorized by this subsection. The Secretary of the Treasury shall purchase any obligation of the Corporation issued under this subsection, and for such purchase the Secretary may use as a public debt transaction the proceeds of the sale of any securities issued under chapter 31 of title 31,

United States Code. The purpose for which securities may be issued under chapter 31 of title 31, United States Code, shall include any such purchase.

"(g) ADMINISTRATIVE EXPENSES.—Subject to spending authority provided in appropriations Acts, the Corporation is authorized to draw from its noncredit account revolving fund for the administrative costs of its guarantee and direct loan programs under subsections (b) and (c) of section 233—

"(1) $13,000,000 for fiscal year 1994; and

"(2) $15,000,000 for fiscal year 1995.

"SEC. 236. INCOME AND REVENUES.

"In order to carry out the purposes of the Corporation, all revenues and income transferred to or earned by the Corporation, from its noncredit activities, shall be held by the Corporation and shall be available to carry out its purposes, including without limitation—

"(1) payment of all expenses of the Corporation, including investment promotion expenses;

"(2) transfers and additions to the insurance reserves maintained under section 235(c), and such other funds or reserves as the Corporation may establish, at such time and in such amounts as the Board may determine; and

"(3) payment of dividends, on capital stock, which shall consist of and be paid from net earnings of the Corporation after payments, transfers, and additions under paragraphs (1) and (2).

"SEC. 237. GENERAL PROVISIONS RELATING TO INSURANCE AND FINANCING PROGRAM.

"(a) AGREEMENTS WITH COUNTRIES.—Insurance, guarantees, and reinsurance issued under this title shall cover investment made in connection with projects in any eligible country or area with the government of which the President of the United States has agreed to institute a program for such insurance, guarantees, or reinsurance.

"(b) PROTECTION OF INTERESTS OF THE CORPORATION.—The Corporation shall determine that suitable arrangements exist for protecting the interest of the Corporation in connection with any insurance, reinsurance, or guarantee issued under this title, including arrangements concerning ownership, use, and disposition of the currency, credits, assets, or investments on account of which payment under such insurance, guarantee, or reinsurance is to be made, and any right, title, claim, or cause of action existing in connection therewith.

"(c) FULL FAITH AND CREDIT PLEDGED.—All guarantees issued under predecessor guarantee authority, and all insurance, reinsurance, and guarantees issued under

this title shall constitute obligations, in accordance with the terms of such insurance, reinsurance, or guarantees, of the United States of America, and the full faith and credit of the United States of America is hereby pledged for the full payment and performance of such obligations.

"(d) FEES.—

"(1) IN GENERAL.—Fees may be charged for providing insurance, reinsurance, financing, and other services under this title in amounts to be determined by the Corporation. In the event fees charged for insurance, reinsurance, financing, or other services are reduced, fees to be paid under existing contracts for the same type of insurance, reinsurance, financing, or services and for similar guarantees issued under predecessor guarantee authority may be reduced.

"(2) CREDIT TRANSACTION COSTS.—Project-specific transaction costs incurred by the Corporation relating to loan obligations or guarantee commitments covered by the provisions of the Federal Credit Reform Act of 1990, including the costs of project-related travel and expenses for legal representation provided by persons outside the Corporation and other similar expenses which are charged to the borrower, shall be paid out of the ap-

propriate finance account established pursuant to section 505(b) of such Act.

"(3) NONCREDIT TRANSACTION COSTS.—Fees paid for the project-specific transaction costs and other direct costs associated with services provided to specific investors or potential investors pursuant to section 233 (other than those covered in paragraph (2)), including financing, insurance, reinsurance, missions, seminars, conferences, and other preinvestment services, shall be available for obligation for the purposes for which they were collected, notwithstanding any other provision of law.

"(e) INSURANCE, GUARANTEES, AND REINSURANCE LIMITED TO 20 YEARS.—No insurance, reinsurance, or guarantee of any equity investment under this title shall extend beyond 20 years from the date on which such insurance, reinsurance, or guarantee is issued.

"(f) AMOUNT OF COMPENSATION PAID ON CLAIMS.—Compensation for any insurance, reinsurance, or guarantee issued under this title shall not exceed the dollar value, as of the date of the investment, of the investment made in the project with the approval of the Corporation plus interest, earnings, or profits actually accrued on such investment to the extent provided by such

insurance, reinsurance, or guarantee, except that the Corporation may provide that—

"(1) appropriate adjustments in the insured dollar value be made to reflect the replacement cost of project assets;

"(2) compensation for a claim of loss under insurance of an equity investment may be computed on the basis of the net book value attributable to such equity investment on the date of loss; and

"(3) compensation for loss due to business interruption may be computed on a basis to be determined by the Corporation which reflects amounts lost.

Notwithstanding the preceding sentence, the Corporation shall limit the amount of direct insurance and reinsurance issued under section 233 so that risk of loss as to at least 10 percent of the total investment of the insured and its affiliates in the project is borne by the insured and such affiliates, except that this limitation shall not apply to direct insurance or reinsurance of loans by banks or other financial institutions to unrelated parties.

"(g) LIMITATION WITH RESPECT TO FOREIGN CREDIT INSTITUTIONS.—Insurance, guarantees, or reinsurance of a loan or equity investment of an eligible investor in a foreign bank, finance company, or other credit

institution shall extend only to such loan or equity investment and not to any individual loan or equity investment made by such foreign bank, finance company, or other credit institution.

"(h) SETTLEMENT AND ARBITRATION OF CLAIMS.—Claims arising as a result of insurance, reinsurance, or guarantee operations under this title or under predecessor guarantee authority may be settled, and disputes arising as a result thereof may be arbitrated with the consent of the parties, on such terms and conditions as the Corporation may determine. Payment made pursuant to any such settlement, or as a result of an arbitration award, shall be final and conclusive notwithstanding any other provision of law.

"(i) CONTRACTS PRESUMED TO COMPLY WITH ACT.—Each guarantee contract executed by such officer or officers as may be designated by the Board shall be conclusively presumed to be issued in compliance with the requirements of this Act.

"(j) USE OF LOCAL CURRENCIES.—Direct loans or investments made in order to preserve the value of funds received in inconvertible foreign currency by the Corporation as a result of activities conducted pursuant to section 233(a) shall not be considered in determining whether the Corporation has made or has outstanding

loans or investments to the extent of any limitation on obligations and equity investment imposed by or pursuant to this title. The provisions of section 504(b) of the Federal Credit Reform Act of 1990 shall not apply to direct loan obligations made with funds described in this subsection.

"(k) PROHIBITION ON NONCOMPETITIVE AWARDING OF INSURANCE CONTRACTS ON OPIC SUPPORTED EXPORTS.—

"(1) REQUIREMENT FOR CERTIFICATION.—

"(A) IN GENERAL.—Except as provided in subparagraph (C), the investor on whose behalf insurance, reinsurance, guaranties, or other financing is provided under this title with respect to a project shall be required to certify to the Corporation that any contract for the export of goods as part of that project will include a clause requiring that United States insurance companies have a fair and open competitive opportunity to provide insurance against risk of loss of such export.

"(B) WHEN CERTIFICATION MUST BE MADE.—The investor shall be required, in every practicable case, to so certify before the insurance, reinsurance, guarantee, or other financing

is provided. In any case in which such a certification is not made in advance, the investor shall include in the certification the reasons for the failure to make a certification in advance.

"(C) EXCEPTION.—Subparagraph (A) does not apply with respect to an investor who does not, because of the nature of the investment, have a controlling interest in fact in the project in question.

"(2) REPORTS BY THE UNITED STATES TRADE REPRESENTATIVE.—The United States Trade Representative shall review the actions of the Corporation under paragraph (1) and, after consultation with representatives of United States insurance companies, shall report to the Congress, with respect to such actions, in the report required by section 181(b) of the Trade Act of 1974.

"(3) DEFINITIONS.—For purposes of this subsection—

"(A) the term 'United States insurance company' includes—

"(i) an individual, partnership, corporation, holding company, or other legal entity which is authorized, or in the case of a holding company, subsidiaries of

which are authorized, by a State to engage in the business of issuing insurance contracts or reinsuring the risk underwritten by insurance companies; and

"(ii) foreign operations, branches, agencies, subsidiaries, affiliates, or joint ventures of any entity described in clause (i);

"(B) United States insurance companies shall be considered to have a had a 'fair and open competitive opportunity to provide insurance' if they—

"(i) have received notice of the opportunity to provide insurance; and

"(ii) have been evaluated on a nondiscriminatory basis; and

"(C) the term 'State' includes the District of Columbia and any commonwealth, territory, or possession of the United States.".

"SEC. 238. GENERAL PROVISIONS AND POWERS.

"(a) PRINCIPAL OFFICE.—The Corporation shall have its principal office in the District of Columbia and shall be deemed, for purposes of venue in civil actions, to be a resident of the District of Columbia.

"(b) AUDITS.—

"(1) IN GENERAL.—The Corporation shall be subject to the applicable provisions of chapter 91 of title 31, United States Code, except as otherwise provided in this title.

"(2) INDEPENDENT AUDIT.—An independent certified public accountant shall perform a financial and compliance audit of the financial statements of the Corporation each year, in accordance with generally accepted Government auditing standards for a financial and compliance audit, taking into consideration any standards recommended by the Comptroller General. The independent certified public accountant shall report the results of such audit to the Board. The financial statements of the Corporation shall be presented in accordance with generally accepted accounting principles. These financial statements and the report of the accountant shall be included in a report which contains, to the extent applicable, the information identified in section 9106 of title 31, United States Code, and which the Corporation shall submit to the Congress not later than 6½ months after the end of the last fiscal year covered by the audit. The Comptroller General may review the audit conducted by the accountant and the report to the Congress in the manner and at such

times as the Comptroller General considers necessary.

"(3) AUDIT BY COMPTROLLER GENERAL.—In lieu of the financial and compliance audit required by paragraph (2), the Comptroller General shall, if the Comptroller General considers it necessary or upon the request of the Congress, audit the financial statements of the Corporation in the manner provided in paragraph (2).

"(4) AVAILABILITY OF INFORMATION.—All books, accounts, financial records, reports, files, workpapers, and property belonging to or in use by the Corporation and the accountant who conducts the audit under paragraph (2), which are necessary for purposes of this subsection, shall be made available to the representatives of the General Accounting Office designated by the Comptroller General.

"(c) POWERS.—To carry out the purposes of this title, the Corporation is authorized—

"(1) to adopt and use a corporate seal, which shall be judicially noticed;

"(2) to sue and be sued in its corporate name;

"(3) to adopt, amend, and repeal bylaws governing the conduct of its business and the perform-

ance of the powers and duties granted to or imposed upon it by law;

"(4) to acquire, hold, or dispose of, upon such terms and conditions as the Corporation may determine, any property, real, personal, or mixed, tangible or intangible, or any interest therein;

"(5) to invest funds derived from fees and other revenues in obligations of the United States and to use the proceeds therefrom, including earnings and profits, as it considers appropriate;

"(6) to indemnify directors, officers, employees, and agents of the Corporation for liabilities and expenses incurred in connection with their Corporation activities;

"(7) to require bonds of officers, employees, and agents and to pay the premiums therefor;

"(8) notwithstanding any other provision of law, to represent itself or to contract for representation in all legal and arbitral proceedings;

"(9) to enter into limited-term contracts with nationals of the United States for personal services to carry out activities in the United States and abroad under subsections (d) and (e) of section 233;

"(10) to purchase, discount, rediscount, sell, and negotiate, with or without its endorsement or

guarantee, and guarantee notes, participation certificates, and other evidence of indebtedness (except that the Corporation shall not issue its own securities, except participation certificates for the purpose of carrying out section 231(c)(3) or participation certificates as evidence of indebtedness held by the Corporation in connection with settlement of claims under section 237(h));

"(11) to make and carry out such contracts and agreements as are necessary and advisable in the conduct of its business;

"(12) to exercise any priority of the Government of the United States in collecting debts from the estates of bankrupt, insolvent, or decedent parties;

"(13) to determine the character of and the necessity for its obligations and expenditures, and the manner in which they shall be incurred, allowed, and paid, subject to provisions of law specifically applicable to Government corporations;

"(14) to collect or compromise any obligations assigned to or held by the Corporation, including any legal or equitable rights accruing to the Corporation; and

"(15) to take such actions as may be necessary or appropriate to carry out the powers of the Corporation.

"(d) EXEMPTION FROM STATE AND LOCAL TAXATION.—The Corporation (including its franchise, capital, reserves, surplus, advances, intangible property, and income) shall be exempt from all taxation at any time imposed by any State, the District of Columbia, or any county, municipality, or local taxing authority.

"(e) CORPORATE OPERATIONAL GUIDELINES.—The Corporation—

"(1) shall establish and publish guidelines for its programs and operations consistent with the provisions of this title, and

"(2) shall make such guidelines available to applicants for insurance, reinsurance, financing, or other assistance provided by the Corporation.

The provisions of this title shall be controlling with respect to the Corporation's programs and operations.

"SEC. 239. ANNUAL REPORT; MAINTENANCE OF INFORMATION.

"(a) ANNUAL REPORT.—After the end of each fiscal year, the Corporation shall submit to the Congress a complete and detailed report of its operations during such fiscal year. Such report shall include—

"(1) an assessment, based upon the development impact profiles required by section 234(a), of the economic and social development impact and benefits of the projects with respect to which such profiles are prepared, and of the extent to which the operations of the Corporation complement or are compatible with the development assistance programs of the United States and other donors; and

"(2) a description of any project for which the Corporation—

"(A) refused to provide any insurance, reinsurance, financing, or other financial support, on account of violations of human rights referred to in section 234(e); or

"(B) notwithstanding such violations, provided such insurance, reinsurance, financing, or financial support, on the basis of a determination that—

"(i) the exception set forth in section 116(a) applies, or

"(ii) the national security interest so requires.

"(b) PROJECTIONS OF EFFECTS ON EMPLOYMENT.—

"(1) IN GENERAL.—Each annual report required by subsection (a) shall contain projections of

the effects on employment in the United States of all projects for which, during the fiscal year covered by the report, the Corporation initially issued any insurance or reinsurance or provided financing. Each such report shall include projections of—

"(A) the amount of United States exports to be generated by those projects, both during the start-up phase and over a period of years;

"(B) the final destination of the products to be produced as a result of those projects; and

"(C) the impact such production will have on the production of similar products in the United States with regard to both domestic sales and exports.

"(2) BASIS FOR PROJECTIONS.—The projections required by this subsection shall be based on an analysis of each of the projects described in paragraph (1).

"(3) MANNER OF REPORTING EFFECTS ON EMPLOYMENT.—In reporting the projections on employment required by this subsection, the Corporation shall specify, with respect to each project—

"(A) any loss of jobs in the United States caused by the project, whether or not the project itself creates other jobs;

"(B) any jobs created by the project; and

"(C) the country in which the project is located, and the economic sector involved in the project.

No proprietary information may be disclosed under this paragraph.

"(c) MAINTENANCE OF INFORMATION.—The Corporation shall maintain as part of its records—

"(1) all information collected in preparing the report required by section 240A(c) of the Foreign Assistance Act of 1961 (as in effect before the enactment of the Overseas Private Investment Corporation Amendments Act of 1988), whether the information was collected by the Corporation itself or by a contractor; and

"(2) a copy of the analysis of each project analyzed in preparing the projections required by subsection (b) of this section or the report required by section 240A(c) of this Act (as in effect before the enactment of the Overseas Private Investment Corporation Amendments Act of 1988).

"(d) PROGRAMS OF COOPERATION WITH PRIVATE INDUSTRY.—Each annual report required by subsection (a) shall include an assessment of programs implemented by the Corporation under section 233(f)(6), including the

following information, to the extent such information is available to the Corporation:

"(1) The nature and dollar value of political risk insurance provided by private insurers in conjunction with the Corporation, which the Corporation was not permitted to provide under this title.

"(2) The nature and dollar value of political risk insurance provided by private insurers in conjunction with the Corporation, which the Corporation was permitted to provide under this title.

"(3) The manner in which such private insurers and the Corporation cooperated in recovery efforts and claims management.

"(e) PROTECTION OF CERTAIN INFORMATION.—Subsections (b) and (d) do not require the inclusion in any information submitted pursuant to those subsections of any information which would not be required to be made available to the public pursuant to section 552 of title 5, United States Code (relating to freedom of information).

"SEC. 240. DEFINITIONS.

"As used in this title, the following terms have the following meanings:

"(1) BOARD.—The term 'Board' means the Board of Directors of the Overseas Private Investment Corporation.

"(2) CORPORATION.—The term 'Corporation' means the Overseas Private Investment Corporation.

"(3) ELIGIBLE INVESTOR.—(A) The term 'eligible investor' means—

"(i) a United States citizen;

"(ii) a corporation, partnership, or other association, including a nonprofit association, which is created under the laws of the United States, any State, the District of Columbia, or any commonwealth, territory, or possession of the United States, and which is substantially beneficially owned by United States citizens; and

"(iii) a foreign corporation, partnership, or other association which is wholly owned by one or more United States citizens or corporations, partnerships, or other associations described in clause (ii), except that the eligibility of any such foreign corporation shall be determined without regard to any shares held by other than United States citizens or corporations, partnerships, or other associations described in clause (ii) if, in

the aggregate, such shares equal less than 5 percent of the total issued and subscribed share capital of such foreign corporation.

"(B) For purposes of this title—

"(i) in the case of insurance or a guarantee for any loan investment, a final determination of whether a person is an eligible investor may be made at the time the insurance or guarantee is issued; and

"(ii) in the case of insurance or a guarantee for any other investment, an investor must be an eligible investor at the time a claim arises as well as the time the insurance or guarantee is issued.

"(4) EXPROPRIATION.—The term 'expropriation' includes any abrogation, repudiation, or impairment by a foreign government of its own contract with an investor with respect to a project, where such abrogation, repudiation, or impairment is not caused by the investor's own fault or misconduct, and materially adversely affects the continued operation of the project.

"(5) INVESTMENT.—The term 'investment' includes any contribution or commitment of funds,

commodities, services, patents, processes, or techniques, in the form of—

"(A) a loan or loans to an approved project,

"(B) the purchase of a share of ownership in any such project,

"(C) participation in royalties, earnings, or profits of any such project, or

"(D) the furnishing of commodities or services pursuant to a lease or other contract.

"(6) NONCREDIT ACCOUNT REVOLVING FUND.—The term 'noncredit account revolving fund' means the account in which funds under section 236 and all funds from noncredit activities are held.

"(7) NONCREDIT ACTIVITIES.—The term 'noncredit activities' means all activities of the Corporation other than its guarantee program under section 233(b) and its direct loan program under section 233(c).

"(8) PREDECESSOR GUARANTEE AUTHORITY.—The term 'predecessor guarantee authority' means prior guarantee authorities (other than housing guarantee authorities) repealed by the Foreign Assistance Act of 1969, section 202(b) and 413(b) of the Mutual Security Act of 1954, and section

111(b)(3) of the Economic Cooperation Act of 1948, (exclusive of authority relating to informational media guarantees).".

(b) CONFORMING AMENDMENT.—Section 222(a) of the Foreign Assistance Act of 1961 (22 U.S.C. 2182(a)) is amended by striking "238(c)" in the first sentence and inserting "240(3)".

SEC. __02. IMPACT ON EMPLOYMENT IN THE UNITED STATES.

No funds made available to carry out any provision of this title or the amendments made by this title may be obligated or expended for any financial incentive to a business enterprise currently located in the United States for the purpose of inducing such an enterprise to relocate outside the United States, if such incentive or inducement is likely to reduce the number of employees in the United States because United States production is being replaced by such enterprise outside the United States.

SEC. __03. INTERNATIONALLY RECOGNIZED WORKER RIGHTS.

No funds made available to carry out any provision of this title or the amendments made by this title may be obligated or expended for any project or activity that contributes to the violation of internationally recognized workers rights, as defined in section 502(a)(4) of the Trade Act of 1974, of workers in the recipient country, including any designated zone in that country.

May 12, 1993

Mr. Robert L. Gallucci
Assistant Secretary for
Politico Military Affairs
Department of State
Washington, D.C.

Dear Secretary Gallucci:

Thank you for your thoughtful testimony before the Subcommittee on Economic Policy, Trade and Environment. I appreciate your appearing before us so soon after your return from your overseas travel.

I am supportive of your objectives in providing training and other technical assistance on export controls to the republics of the Former Soviet Union, countries in Eastern Europe and elsewhere. However, some members of the Subcommittee have expressed misgivings about the lack of specificity in your request. I share their concerns.

For these reasons, I would appreciate responses to the following questions:

1. What training and technical assistance will be provided? What topics will be addressed? What information will be presented?

2. How much money will be spent for each of the export control related functions that you have identified?

3. In what countries will the training and technical assistance be provided, and what will it consist of in each?

4. Which department will have primary responsibility for conducting the training on export controls? What will be the role of each of the other departments or agencies?

5. Given the expertise on export controls within the U.S. Government, we would have concerns about the use of outside contractors to conduct the training. Is it your intention to use outside contractors, and, if so, what will be their specific function?

6. Has anyone in the Administration reviewed how the funds that Congress has appropriated to this point been spent on export control type non-proliferation training? This would include the Nunn-Lugar funds and the monies provided to the Department of Energy.

Once again, thank you very much for your testimony. I would appreciate receiving answers to these questions by May 24, 1993. Please send your responses to the subcommittee office at 702 House Annex I. If you have any questions, please contact Mr. John Scheibel, Staff Director and Counsel to the Subcommittee at 226-7820.

I look forward to working with you closely and cooperatively on these very important issues.

Sincerely,

Sam Gejdenson
Chairman
Subcommittee on Economic Policy
Trade and Environment

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